



TESCO

More than the weekly shop

Corporate Responsibility Review 2008

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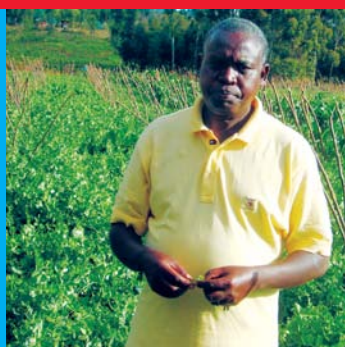
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About this Review

This Review covers our Corporate Responsibility activity for the Tesco Group. For each of our key issues we have set out our position along with the context in which we operate, our progress and performance in 2007, and the promises that we aim to achieve in 2008.

The period covered by the Review is the Tesco financial year, March 2007 to February 2008. This is referred to as 2007.



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www.tesco.com/crreview08



Chief Executive's introduction

This Review demonstrates how success in business and progress on the environment and communities go hand in hand.

Our year

An introduction by Terry Leahy, our Chief Executive

We face many challenges in this first decade of the 21st century. We must tackle climate change and other environmental priorities. We must learn how we can better sustain communities and build new relationships that meet changing social needs. We must tackle poverty and help families on low incomes. We must develop our people so that they are fulfilled at work and are equipped to compete and thrive in a global marketplace.

There is a growing belief that business has an enormous role to play in tackling these and other challenges. I am excited by this task, and believe fundamentally that it is by being successful that businesses can make the biggest contribution. It is efficient businesses that can invest in deprived areas from which other companies have retreated. It is successful businesses that understand the needs of their customers – including low-income customers and those with specific needs. It is growing businesses that can bring the hope that comes when new jobs and careers replace poverty and unemployment. And it is strong businesses that will prove that the challenge of climate change will be met through innovation and growth.

Tesco now operates in 13 countries and over 30 million people shop with us each week. We have a team of over 440,000 people around the world. Thousands of companies supply us with goods, each of which will have employees whose lives we affect.

This Review is therefore about our role as a successful and responsible business. We report on our impact on the environment, the people who work for us, the communities of which we are a part, and our relationship with our customers around the world.

Our Community Plan – our programme to put social and environmental issues at the heart of our business – is growing in strength in each of the countries in which we operate. Whether on climate change or on healthy living, on waste reduction or community engagement, our Community Plan establishes our ambitions, our goals and our actions for achieving them.

One of our biggest challenges is climate change.

I have always been clear that sustainable consumption must not mean an end to growth. Growth is achieved through dynamism, energy and ingenuity and we need each of these qualities in the fight against climate change, and in particular the challenge of consuming while protecting the environment – creating a low-carbon economy and society.

So our climate change strategy has three priorities. First, we are setting an example by reducing our own carbon footprint. We have a target to halve emissions from our buildings by 2020, and we have robust plans in place throughout the business to achieve it. The direct emissions of the Tesco business are 4.47 million tonnes of CO₂e. This has increased over the past year, largely because we have continued to expand into new countries and within the UK. But we have reduced our carbon intensity, the amount of carbon used per square foot, by 4.7%.

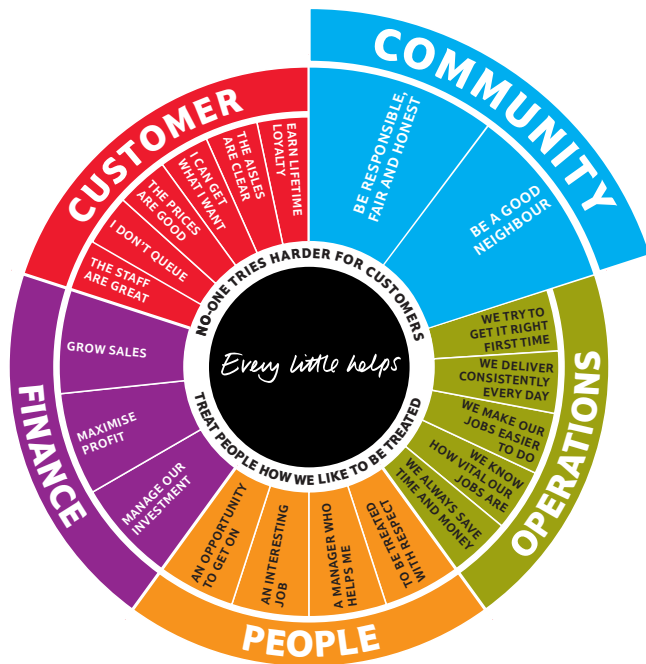
Second, we are empowering customers to make environmental choices by making the green alternative affordable, and by providing the information on which to make an informed choice. By halving the price of energy-saving light bulbs we have quadrupled their sales. And, with the Carbon Trust, we have begun the task of developing a universally accepted and commonly understood measure of the carbon footprint of our products. Customers can now begin to compare emissions as easily as they can compare price or nutritional profile.

Third, we are using our resources and relationships to work with others to achieve the low-carbon economy of the future. We have created a £100 million Sustainable Technology Fund to support large-scale carbon reduction technologies at our stores and distribution centres and in our supply chain. We have created a new Sustainable Consumption Institute at the University of Manchester, pledging to make all its findings freely and publicly available.

Terry Leahy with staff at our Cheshunt Extra store in Hertfordshire, UK.



Every Little Helps



On our broader environmental impacts, we have worked with our customers in the UK to save over one billion plastic bags over the past year. Through our Green Clubcard scheme, we have learned that people respond best to incentives, and that the key to achieving sustainable behaviour change lies not in penalising and restricting people, but in empowering them by making their lives better and easier.

Launching Fresh & Easy in the US was a major highlight this year and demonstrated our determination to make a difference on climate change wherever we operate. This is the first time we have entered a new market by starting from scratch, and sustainability has been integral from the beginning. Fresh & Easy is a pilot member of the Leadership in Energy and Environmental Design (LEED) Volume Certification Program which encourages energy-efficient building. New Fresh & Easy stores use natural light, better insulation, bike racks for employees and customers, and in-store recycling. Fresh & Easy also helps customers make sustainable choices, for example by only selling energy-efficient light bulbs.

Tackling climate change is our biggest challenge, but there are many others: ensuring our suppliers work to high ethical standards; making sure that our customers can buy healthy and nutritious food, sourced locally where they want it; being a good neighbour and a good employer in the communities we serve; and reducing the broader environmental impacts of our own business and those of our suppliers.

The impact we have on our suppliers and those who work for them is an ever more important issue as we increase the number of products we buy from around the world.

We source from many different countries so that we can offer customers the best possible value, quality and range. Conditions in some parts of the world are difficult, but I firmly believe that international trade can help by creating jobs and lifting people out of poverty. We choose suppliers that are willing and able to meet our strict standards, and use a comprehensive programme of monitoring, training and capability building to make sure they do.

In 2007, we added new measures to strengthen this programme, such as a series of unannounced factory audits in Bangladesh, China, India and Pakistan. We now require that inspections are carried out by individually named, competent auditors. Along with four other global retailers, we have formed the Global Social Compliance Programme to develop a consistent code of practice comprising the highest standards from the many codes already available.

Our customers around the world are increasingly concerned about health issues ranging from obesity, diabetes and heart disease to malnutrition, and want appropriate products and information.

We were the first UK supermarket to introduce nutritional labelling, and remain the only one to have labelled all eligible products. We are rolling this out across our business and aim to label eligible products in all countries within the next two years.

Our success depends on our people throughout the world. We have a committed, skilled workforce that reflects the communities we serve. We invest heavily in developing our people. For example, our first Chinese graduates started working in Shanghai during 2007, after training in the UK, and we are training 42 local graduates in our business in China.

Customers tell us they want fresh, local food and we have responded in the UK by opening a network of regional buying offices. This has rapidly expanded local product sales, with more than 800 new lines, and we expect local sales to more than double over the next few years. We have also focused on local sourcing in many of the other countries in which we operate, providing our customers with the products they want, and boosting local economies too.

Tesco serves thousands of communities around the world. We depend on their support and aim to play a positive role beyond our immediate contribution of meeting customer needs and providing local jobs. We listen carefully so we can understand and respond to what local people want, beginning when we plan to open a new store.

Support for education is a major part of our contribution to communities. Computers for Schools is now in its 17th year in the UK and we have used our experience to introduce similar programmes in other countries. Tesco for Schools in Poland ran for the sixth time last year and involved half the schools in the country.

This Review highlights the progress we have made over the past year and the many challenges we still face. At Tesco we have always been motivated by challenges, and this is an exciting time.

I am very confident that by working hard with our customers, our staff, and our many stakeholders around the globe, we will increasingly demonstrate that success in business and progress on the environment and in communities go hand in hand.

Terry Leahy,
Chief Executive

Achievements and challenges

We report on our progress by issue throughout the Review. Overall highlights in 2007 are included below.

Achievements in 2007

- > We reduced our carbon intensity by 4.7% compared with 2006, which means we are on track to meet our ambitious targets to halve CO₂e emissions from existing stores by 2020 (see page 9).
- > We installed 30 automated recycling units for customer use, bringing the total number installed to 45. The machines have exceeded all expectations, with over 65 million items processed in 2007 alone (see page 16).
- > We met our target to reduce carrier bag use by 25% from the 2006 level of four billion after just 36 weeks, saving over one billion bags (see page 17).
- > We increased sales of locally sourced products by 55% in the UK and 18% in Poland (see page 21).
- > We sold over 18 million litres of 'localchoice' milk, which pays farmers 28 pence a litre, the highest price in the UK (see page 22).
- > We launched an industry-leading Auditor Recognition Programme for vetting our suppliers' labour standards. All audits for Tesco must now be carried out by an approved, individually named auditor (see page 28).
- > We continued the roll-out of front-of-pack Guideline Daily Amount (GDA) labelling to own-brand products in countries including Turkey, South Korea and Poland, where 33% of products are now labelled (see page 35).
- > We improved the nutritional content of over 900 products in the UK (see page 35).
- > We supported communities in crisis, from the Dominican Republic to China, Malaysia and the UK. In total we gave over £250,000 in donations to people affected by extreme weather conditions such as hurricanes and floods (see page 39).
- > We raised a record £4.55 million for our UK charity of the year, the British Red Cross (see page 41).
- > We attracted over 1,000 interviewees for 170 jobs at our first six Fresh & Easy stores, thanks to the generous pay and benefits offered (see page 45).

Challenges in 2007

- > Our Group distribution emissions decreased by 4.7% per case delivered against a target of 10%, making our target of a 50% decrease by 2012 more challenging (see page 10).
- > The amount of our waste that we recycled in the UK was 70%, below our target of 75%. We will improve our processes to help us meet our target of diverting 80% from landfill by 2009 (see page 15).
- > Since we introduced biofuels into our fuel for customers and in our distribution fleet in the UK, there has been an active debate about whether biofuels have a positive or negative environmental and social impact (see page 15).
- > We issued 40 warnings to suppliers for breaches of our environmental standards relating to pesticide use (see page 23).
- > On animal welfare, concerns were raised about the welfare standards of broiler chickens and those that produce standard eggs. Supermarkets, including Tesco, were challenged to stop selling them (see page 24).
- > We did not meet our target to audit labour standards at 100% of high-risk suppliers during the year. Audits took place at 73% of such suppliers, a total of 455, compared with 221 carried out in 2006 (see page 26).

Tesco at a glance

In the last decade we have grown our business to be the world's third largest grocery retailer. We are determined to be a force for good wherever we operate.

Making Corporate Responsibility integral to our business is essential if we want to live our values as a responsible business. But we also believe that it is an opportunity for growth.

Our growth is based on our five-part strategy:

- > core UK business;
- > non-food;
- > international;
- > retail services; and
- > community.

At the heart of our business is the customer. Our core purpose is to create value for customers to earn their lifetime loyalty. Our values, which underpin everything we do, are to be first for customers and to treat people how we like to be treated.

Our 'Steering Wheel' (see page 2) or balanced scorecard gives us the tools to deliver our strategy for growth. As well as customers, we must also consider the impact of our decisions on our people, our operations, finance and the community.

We have adopted this approach in each of the countries in which we operate. They all have different challenges and opportunities but in each we believe in the power of the consumer to drive positive change. Our Community Plans are aimed at realising this potential.

Republic of Ireland

- > Started trading – 1997
- > Number of stores – 100
- > Number of staff – 12,474
- > Community Plan launched – 2007

UK

- > Incorporated – 1924
- > Number of stores – 2,115
- > Number of staff – 280,373
- > Community Plan launched – 2006

Republic of Ireland

UK

Poland

Czech Republic

Hungary

USA

- > Started trading – 2007
- > Number of stores – 53
- > Number of staff – 669

USA

Czech Republic

- > Started trading – 1996
- > Number of stores – 96
- > Number of staff – 12,886
- > Community Plan launched – 2007

Hungary

- > Started trading – 1995
- > Number of stores – 123
- > Number of staff – 19,163
- > Community Plan launched – 2007

Key highlights

No. 3

Third largest grocery retailer in the world

£51.8bn

Group sales

440,000+

People worldwide

3,728

Stores worldwide

13

Markets

For a complete list of our Community Plan projects, please visit us at:

www.tesco.com/crreview08/communityplan

Poland

- > Started trading – 1996
- > Number of stores – 301
- > Number of staff – 24,870
- > Community Plan launched – 2007

Slovakia

- > Started trading – 1996
- > Number of stores – 60
- > Number of staff – 8,519
- > Community Plan launched – 2007

China

- > Started trading – 2004
- > Number of stores – 56
- > Number of staff – 17,471
- > Community Plan launches – 2008

South Korea

- > Started trading – 1999
- > Number of stores – 137
- > Number of staff – 12,641
- > Community Plan launched – 2007

Slovakia

Turkey

China

South Korea

Japan

Thailand

Malaysia

Turkey

- > Started trading – 2003
- > Number of stores – 66
- > Number of staff – 5,705
- > Community Plan launched – 2007

Thailand

- > Started trading – 1998
- > Number of stores – 476
- > Number of staff – 35,269
- > Community Plan launched – 2007

Malaysia

- > Started trading – 2001
- > Number of stores – 20
- > Number of staff – 8,045
- > Community Plan launches – 2008

Japan

- > Started trading – 2003
- > Number of stores – 125
- > Number of staff – 3,604
- > Community Plan launches – 2008

Climate change and Environment





We're in this together

Tackling climate change will require extraordinary commitment from us all. At Tesco, we have been working hard to play a positive role.

Our commitment, commercial strength and relationships with millions of customers enable us to lead our sector towards sustainable consumption, by reducing our direct environmental impact and encouraging suppliers and customers to do the same.

◀ The Tesco train, carrying goods from our distribution centre in Daventry to Livingston

Climate change

We can play a positive role in tackling climate change and help create a revolution in green consumption.

Position

There is a growing consensus on the science of climate change. It is accepted by governments, businesses, NGOs and people around the world. To limit temperature increases this century to less than 2°C, the Intergovernmental Panel on Climate Change (IPCC) estimates that we must reduce global carbon emissions by at least 50% by 2050. Other experts say that even more is needed.

This will require extraordinary commitment from us all. On its current trajectory the UK will not achieve its target to cut carbon emissions by at least 26% by 2020, let alone by 60% by 2050. The same is true of many other countries.

Critics argue that supermarkets are part of the problem because they often run energy-intensive stores selling food and other products that have travelled long distances. We believe that retailers can play a positive role in tackling climate change. Tesco has never ducked a challenge and we intend to lead the way by dramatically reducing our own carbon footprint and making low-carbon products accessible and affordable for consumers.

Our climate change plan focuses on ambition and action across the Tesco Group in three ways.

- > **Setting an example** – We measure and publish our direct carbon footprint so we can identify our biggest impacts and provide transparency within our business and to others about our progress. We have used the footprint to set challenging long-term targets to substantially reduce emissions from our buildings and distribution network.
- > **Working with others** – We are using our resources and relationships to work with others to achieve change. We have created a £100 million Sustainable Technology Fund to support large-scale carbon reduction technologies at our stores and distribution centres and in our supply chain worldwide. We have funded a new Sustainable Consumption Institute at the University of Manchester for five years with £25 million and will work with our suppliers to reduce carbon in our supply chain.

- > **Empowering our customers** – Engaging with customers is vital if we are to achieve the required carbon reductions. Consumers influence over 60% of UK carbon emissions directly and indirectly through their actions and their purchasing decisions. Tesco has started to label products with their carbon footprint, and help customers understand what it means. We will make low-carbon choices easy and affordable. We will encourage greater participation by incentivising climate-friendly actions.

Progress

Our climate change plan will be refined as we learn from experience. Our progress so far is reported below.

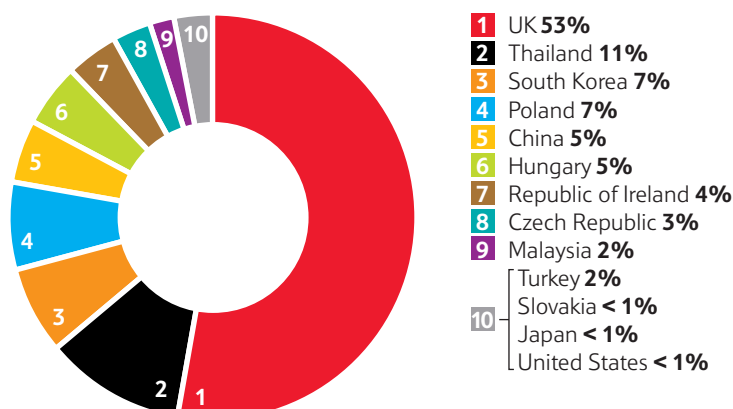
Setting an example

In 2007 our Group carbon emissions were calculated as 4.47 million tonnes of CO₂e (carbon dioxide and equivalent greenhouse gases). This was an increase of 8.6% on the previous year, while our floor space grew by 14% over the same period. We have therefore reduced the overall Group carbon intensity per square foot of net sales area by 4.7%.

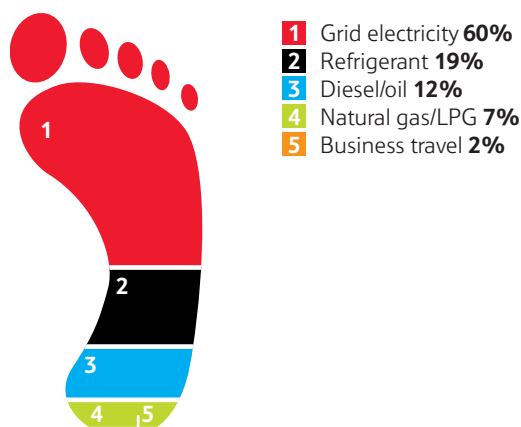
Our 2006 footprint was also recalculated to take account of improved data collection systems. As a result, the figure for 2006 has been reassessed from 4.13 million to 4.11 million tonnes of CO₂e.

During 2007, we have improved processes to collect and check carbon footprint data at country level and to calculate our emissions for our global operations. Relevant Key Performance Indicators (KPIs) have been developed and these are tracked by country and Group environmental managers. There are clear lines of responsibility for carbon reporting across the business, with training and guidance provided to country representatives and at Group level. Our total CO₂e emissions, and the percentage split of these emissions by country and by emissions source, have been independently assured by Environmental Resources Management Limited (ERM) to ensure that they have been appropriately reported. The full assurance statement from ERM can be found at www.tesco.com/crreview08/erm

CO₂ by country



CO₂ by source



£86m

investment in
energy-saving
technology

We are on course to sell over
ten million energy-saving
light bulbs in the UK.

Green choices

The footprint shows that the key causes of our emissions are:

- > heating and lighting in our stores;
- > chilling or refrigerating products; and
- > transporting goods to our stores.

The UK business currently accounts for 53% of the total, emitting 2.3 million tonnes of CO₂e. As our international businesses become more established and continue to grow, they will have a bigger impact on our footprint so we have set common targets across the Group.

Our targets on climate change, set in 2007, reflect these priorities:

- > to halve the carbon emissions from all new stores we build worldwide between now and 2020 compared with an equivalent store built in 2006;
- > to halve emissions from our existing stores and distribution centres worldwide by 2020; and
- > to halve the CO₂e created per case of goods delivered worldwide by 2012, compared with 2006.

Performance in our stores 2007 We are investing significantly in energy efficiency in our stores as our footprint shows that emissions from electricity use and natural gas account for our biggest impacts: 67% of our total carbon footprint.

By the end of 2008, our UK energy use per square foot will be half what it was in 2000. The carbon intensity, or carbon emissions per square foot, of new stores opened in the UK after 1 March 2007 has been reduced by 22% compared with the previous year.

Powering our distribution centres

We are making our distribution centres more energy efficient as part of our overall commitment to cut carbon emissions. One way we seek to do this is by using renewable energy.

The distribution centre for our Fresh & Easy business in California has a 500,000 sq ft solar panelled roof, one of the largest such installations in the US. We also have photovoltaic roofs in Turkey and Thailand.



This year we have invested £86 million in energy-saving technology for our stores, including low-energy lighting, energy-efficient bakery ovens, wind turbines, combined heat and power (CHP), trigeneration and hanging curtains on freezer doors. In 2007, these investments saved 66,000 tonnes of CO₂e in our stores alone and resulted in a like-for-like reduction in emissions of 5.8%, which exceeded our internal annual progress target of 5.5%.

We have also invested significantly in energy-saving technology in China, the Czech Republic, Hungary, Ireland, Poland, Slovakia, South Korea, Turkey, Thailand and the US.

In the US, Fresh & Easy is a pilot member of the Leadership in Energy and Environmental Design (LEED) Volume Certification Program, demonstrating the company's commitment to design more energy-efficient and sustainable buildings. Through LEED, Fresh & Easy stores focus on reducing energy use, conserving water, using environmentally friendly materials, appropriate site selection and indoor environmental quality.

Fresh & Easy buildings include skylights on new buildings with overhead lighting that dims automatically, increased insulation to reduce heating and air conditioning, night shades on refrigeration cases to keep cool air from escaping, parking spaces for hybrid vehicles, bike racks for employees and customers, in-store recycling, secondary-loop systems on refrigeration cases to capture and reuse cool air, and low-energy LED lighting in external signage and freezer cases.

Across our Hungarian stores we are installing over 10,000 sq ft of solar panels. At three of our distribution centres we are installing rotating solar panels that track the sun and maximise the amount of solar energy captured. At other locations we are using heat from a district CHP plant and planting a green flora roof.

Climate change continued

Following a UK innovation, energy Champions were appointed in all our stores in Ireland and all 11,000 store staff attended a series of energy awareness briefings. Our Nutgrove store installed Tesco Ireland's first CHP unit.

In Turkey, Tesco-Kipa opened two new stores using solar power for their checkouts, reducing annual CO₂e emissions by 66 tonnes. These stores also utilise natural light, saving a further 114 tonnes CO₂e per year.

An important part of our plan is to trial new leading-edge technology at environmental stores. We use these to demonstrate and test what is possible. Many of the technologies tested are not currently economically viable but may become so in the near future as carbon and fuel prices rise. We have now built environmental stores in seven countries.

In the UK, our fourth model environmental store opened in Shrewsbury and is achieving a carbon footprint 60% less than an equivalent standard store. The previous three model stores achieved reductions of 29%, 36% and 50%. Features being tested at Shrewsbury include a sustainable timber frame, natural lighting through the roof, rainwater harvesting, a ground source heat pump and battery-powered delivery vans.

Performance in refrigeration 19% of our carbon footprint is caused by the release of gases we use in our refrigeration systems in stores and trucks. Rigorous maintenance and monitoring procedures for our systems minimise leaks but these can occur during use and maintenance. We currently have to estimate the footprint from refrigeration by measuring the amount of refrigerant we put into our systems and we are trialling a method of directly measuring leaks to ensure we can assess our impact as accurately as possible.

The vast majority of large refrigerators in the food industry currently use HFC refrigeration gases – introduced as a replacement for ozone-depleting CFCs and HCFCs but which are now known to be extremely potent greenhouse gases.

Tesco is forging ahead with a programme to phase out HFC-based refrigeration in the UK and overseas. In Hungary we are introducing CO₂ refrigeration systems and our store in Várpalota switched to part CO₂ refrigeration in 2007. In 2008 we will install full CO₂ systems at two further stores and begin our first trial at a large store.

In the UK, we installed our first large CO₂ system at Shrewsbury. This adds to the experience from earlier trials of small CO₂ systems at Wick and Swansea and a water-cooled system at Wick.

We are sharing what we learn with all interested parties to speed up and promote the use of natural refrigerants (using CO₂ or water).

Performance in distribution Distribution contributes 12% of our carbon footprint. Our target is to achieve a 50% cut in CO₂ created per case of goods delivered worldwide by 2012 (compared with 2006).

In 2007 we reduced carbon emissions from our distribution systems across our global operations by 4.7% per case delivered. This is below our target of a 10% reduction but we believe that by building on the range of programmes, such as better space utilisation on our vehicles, working with suppliers to reduce the number of empty trips that our fleets make, and changing our distribution network in the UK by opening depots in Livingston, Lichfield and Goole, we can meet our commitment of a 50% reduction by 2012. This figure excludes any benefit from using biofuels (see page 16).

The distribution data included in this Review does not include emissions from freight contracted by Tesco to be distributed internationally between our suppliers and Tesco depots. However, we are working to enhance our monitoring and reporting activities so that we can report this data in the future. We will also continue to reduce the amount of our primary distribution (from suppliers to our depots) emissions data which is based on estimates by continuing to build our capacity to obtain more direct measurements and so improve the quality of our data.

Energy saving in China

We are using LED technology in our vertical chilled cabinets to reduce our energy use. Through this and other measures we expect them to use 60% less energy than standard cabinets. Advertising what we are doing to customers helps to raise awareness of climate change.

Similar technology is being used to reduce our energy use in the other countries that we operate in.



Energy Champions

We have now appointed an Energy Champion in all our Superstores and Extras across the UK and the Republic of Ireland.

Our Energy Champions are trained to offer the crucial link with staff by identifying simple, positive steps we can all take to save energy in our stores. They are supported by posters, stickers and videos encouraging behaviour change, such as switching off lights and turning off taps. When we all work together, these small changes can make a big difference.



We are using alternatives to road transport in the UK. For example, we are saving 6,500 tonnes of CO₂e a year by increasing the space available to suppliers on the Tesco Train, operating between Daventry in the Midlands and Livingston in Scotland. Working with Kingsland Wines, we now transport their wines and spirits by canal from Liverpool to Manchester, cutting emissions by 80%.

We are also making our distribution depots more efficient. Fresh & Easy now has California's largest solar installation at its distribution centre and a similar large installation is planned in the Czech Republic.

Footprint reduction



We opened our first UK green distribution centre this year in Livingston. The roofs have been designed with clear panels to allow much more natural light into the building, we have used sensors to regulate lighting, and we are looking into installing a biomass plant so that the site can generate some of its own electricity.

Working with others

We have a responsibility and an opportunity to work with others. In tackling our indirect carbon footprint, we can share knowledge and resources with others to make a positive contribution.

For example, in South Korea and Thailand we are working with the UN Environment Programme (UNEP) to further people's understanding of climate change and help local communities actively engage with the issues. In partnership with UNEP we hold an Environment Painting and Writing Contest for children in South Korea which attracts over 25,000 participants annually. In 2007 we announced an initiative to plant nine million trees in Thailand's natural forest reserves over five years. As well as UNEP, we are working with the Ministry of Natural Resources and the Foundation for Khao Yai National Park Protection to achieve this. It is estimated that this will help reduce CO₂e in the atmosphere by nine million tonnes over 40 years.

Progress with our Sustainable Technology Fund Our £100 million Sustainable Technology Fund is being used to support large-scale carbon reduction technologies at our stores and warehouses worldwide and in our supply chain. In 2007 these included:

- > wind turbines on store roofs and in car parks;
- > CHP & trigeneration (CHP plus cooling), which generates low-carbon electricity for our stores and distribution centres;
- > ground source heat pumps, which use the constant temperature of the earth to keep the temperature in our stores ambient;
- > photovoltaic cells to power the tills in our stores;
- > roof lights to allow us to make maximum use of natural light in our stores;
- > rainwater collection to use in toilets and car washes; and
- > automated recycling units to make it easier for customers to recycle with us.

Progress with the Sustainable Consumption Institute In 2007 we began a five-year, £25 million funding programme for a new Sustainable Consumption Institute (SCI) at the University of Manchester.

The SCI has been established to develop research to define and accelerate the steps required to make a successful transition to a low-carbon economy and society. The SCI believes that a revolution in sustainable consumption will play a pivotal role in this transition, and that willing consumer action must be at the heart of it.

All research will be published and freely available and the Institute will build global partnerships across multiple disciplines including engineering, economics, geography, architecture, natural sciences and the social sciences. The SCI will also run a doctoral teaching programme and we will sponsor a permanent chair of Sustainable Consumption.

Tesco will work with academics at the University of Manchester to develop areas for research but will have no influence over the findings. The questions the SCI will work on during 2008 are centred on the following three areas.

- > **Business** – What should retail and wider business look like in a low-carbon world – in terms of the shape of businesses, the channels to market and supplier relationships?
- > **Customers** – How can we motivate customers to play their part in tackling climate change willingly to deliver a revolution in green consumption?
- > **Markets** – How can business and government work together to ensure that markets operate effectively in delivering a lower-carbon economy?

Tesco and the SCI are currently talking to other private and public research institutions, NGOs and our suppliers about ways to be involved with the research.

To read more about the work being conducted by the SCI, please visit www.sci.manchester.ac.uk

Climate change continued

Progress with partnerships Tesco is a founding member of the Carbon Disclosure Project (CDP) Supply Chain Collaboration, which will help us understand the carbon footprint created by our suppliers. In October Sir Terry Leahy made the keynote speech at the launch of the 2007 CDP.

Our approach will be to measure our indirect footprint in our supply-chain so that we can identify the carbon-intensive stages and work with suppliers to address them. At our annual supplier conference, Sir Terry Leahy addressed over one thousand suppliers about climate change.

We are working with major producers Coca-Cola and Unilever to find ways of cutting emissions in the supply chain. Partnerships like these will enable us to install Coca-Cola's pioneering natural refrigeration units, achieve distribution efficiencies with Unilever to remove 173,000 lorry miles and achieve packaging reductions across our supply chain of 25% by 2010.

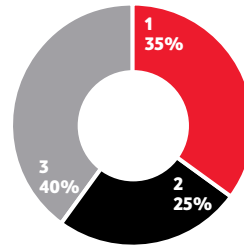
As corporate partners of Forum for the Future for over seven years, we have built a strong relationship working on a broad range of sustainability issues.

Empowering our customers

Our plan for mobilising our customers to make low-carbon choices in their purchasing and lifestyles is the most ambitious part of our overall carbon strategy. It is particularly important because domestic consumers have the potential to influence a significant proportion of carbon emissions (60% of the total in the UK – see chart).

Consumers want to play their part, but need our help. They tell us that the key barriers to greater action are: a concern that being green is more expensive; a lack of information about what can make a difference; and the sense that individual action has no real impact in the face of a global threat.

Consumer influence over UK carbon emissions



- 1** Directly controlled by consumers
 - > Heating
 - > Private vehicles
 - > Electricity
 - > Other transport
- 2** Influenced by consumers
 - > Agriculture
 - > Public sector
 - > Wholesale/retail
- 3** Not directly influenced by consumers
 - > Manufacturing
 - > Coal mining
 - > Export transport

Progress with product carbon footprints and carbon labelling

Working with the Department for Environment, Food and Rural Affairs (DEFRA), the British Standards Institute and the Carbon Trust we have been testing a new, simple, publicly available methodology (the Publicly Available Specification (PAS)) for carbon footprint measurement.

We have tested the current draft PAS on a range of Tesco products in the UK, looking at the complete lifecycle from production through distribution to consumption. This is a specialist activity and we have partnered with an appropriate consultancy, ERM, to make the first assessments.

We have measured the carbon footprints of 30 products within the following five categories:

- > potatoes;
- > tomatoes;
- > light bulbs;
- > laundry detergents; and
- > orange juice.

Alternative transport



The Tesco barge, carrying wine from Manchester to Liverpool by canal.

£25m

investment to set up the Sustainable Consumption Institute at Manchester University

Having completed the assessment work, we are currently working with the Carbon Trust on how best to communicate carbon information to customers. We are piloting the Carbon Trust's carbon reduction label in a UK in-store trial on 20 products in four of the categories above (we are not labelling tomatoes because the product lines we measured in autumn/winter 2007 are now out of season). Armed with this information customers will be able to make informed choices that influence their carbon footprint.

The trial is supported by an easy-to-read leaflet to explain the connection between carbon and climate change to our customers and to show how we can all take some simple steps to reduce our carbon footprint.

We continued to use our 'By Air' sticker in the UK to identify airfreighted products and have achieved our target of limiting airfreighted produce to under 1% of the products we sell, with a bias towards products from developing countries.

Progress with making green products easily affordable In the UK in 2007 we permanently halved the price of energy-efficient light bulbs and doubled the space in-store for them, quadrupling sales. We set a target to sell ten million this year as part of the "Together" climate change campaign and are on track to achieve this. In early 2008 we ran a hugely successful promotion selling over one million energy-efficient lightbulbs for 1p each.

In the UK, we have extended our range of energy-efficient products and are now developing a Tesco Greener Living brand for products with a low environmental impact. The brand will be affordably priced and launches in spring 2008.

We held two green promotions: one in October 2007, to coincide with Energy Saving Week, and one in January 2008. They covered a wide range of products that help customers reduce their environmental impact, such as recycling bins, energy-reducing electrical sockets, wormeries, water savers, home insulation and fleece jackets made from recycled plastic bottles.

Our new Greener Living website provides advice on how to live a greener life at home, in the garden, while travelling, at work and as a parent. In our May Clubcard statement we sent all UK customers a 'Little steps to being green' leaflet.



Promise

In 2008 we will:

- > continue to increase energy efficiency in our stores to achieve our long-term carbon emissions targets;
- > develop an Eco format store which will provide a new blueprint to ensure all new stores hit our 2020 targets for carbon; we will build the first of these stores in 2008;
- > use our £100 million Sustainable Technology Fund to support large-scale projects to reduce our carbon footprint, including large wind turbines, biomass and anaerobic digestion;
- > develop alternatives to HFC refrigeration for our stores, for example by using natural refrigerants such as CO₂;
- > increase our use of renewable energy and build the largest privately funded solar facility in the Czech Republic at our Postrizín distribution centre;
- > continue to improve efficiency in our distribution network by working with suppliers and using more efficient methods of transport, for example the Tesco Train and Britain's waterways;
- > make the SCL's research findings freely available so that everyone can benefit from its work;
- > work with others to develop carbon labelling for products and pilot this in-store; and
- > continue to engage with influential organisations and individuals, including the government, the Carbon Disclosure Project, the Carbon Trust and The Climate Group.

KPI		2007/8
Carbon footprint	To reduce CO ₂ e emissions from our existing stores and distribution centres by 5.5% in the UK as part of our long-term commitment to make a 50% reduction worldwide by 2020.	●
Vehicle efficiency	To reduce the amount of CO ₂ used in our distribution network per case delivered by 8% in the UK as part of our long-term target to make a 50% reduction worldwide by 2012.	●
Water consumption	To reduce water consumption per square metre by 5%, as part of our long-term commitment to reduce water consumption by 15% between 2006 and 2009.	●
Airfreight	To restrict air transport to fewer than 1% of our products.	●
● Below target ● Close to target ● On target ● Above target		To view the complete KPI table, please go to: www.tesco.com/crreview08/kpi



Environment

We are committed to tackling a wide range of issues from reducing packaging to sourcing fish and timber responsibly.

Position

The scale of our operations and our position between producer and customer mean that we are well placed to encourage widespread environmental improvement.

A good example is our climate change strategy, through which we are reducing our own carbon footprint and encouraging our suppliers and customers to do the same (see pages 8 to 13).

We have a similar approach to other environmental issues, managing our impacts, working with suppliers to act sustainably and helping our customers to make green choices.

Our critics say that supermarkets are resource intensive, encourage waste and that we must do more to ensure that the products we source are sustainable. We strongly believe that Tesco can be part of the solution by using our commitment, commercial strength and relationship with millions of customers to lead our sector towards sustainable consumption.

Our scale means we must tackle a wide range of issues, from reducing packaging and increasing the amount we recycle, to addressing concerns about biofuels and sourcing fish and timber in a responsible way. We also want to encourage customers to make environmentally friendly choices by making these appealing and affordable.

Progress

Managing our impacts

Waste in our operations We want to reduce the amount of waste created in our operations. One of our main sources of waste is distribution packaging removed at our stores. Packaging is required to protect products – a damaged or unusable product is highly wasteful. We look for opportunities to reduce the amount of waste we produce wherever possible, for example by working with our suppliers to reduce distribution packaging and encouraging those that use one-way packaging to clearly label recycled and readily recyclable materials.

Reducing packaging

We have a target to reduce packaging by 25% by 2010. This year we have worked hard to reduce packaging on a variety of different products. For example, we have developed our fabric conditioner to be more concentrated so that less packaging is needed for the same number of washes. Point-of-sale signage helps give customers the information they need to make greener choices.



Through our new Greener Living website and brand we want to make environmentally friendly choices more affordable and accessible for our customers.

www.tesco.com/greenerliving



70%
store waste recycled

Less packaging



Our reusable transit trays – green trays – help us save packaging used for transporting and displaying products and are also used by some suppliers in many of the countries in which we operate. In the UK, green trays made 222 million trips in 2007, saving over 130,000 tonnes of cardboard.

We are committed to reducing the amount of waste we send to landfill and have plans in all the countries in which we operate to reflect this. In Ireland we plan to be the first retailer to recycle 100% of store waste by 2010. The move will see in excess of 24,000 tonnes of waste recycled each year.

In the UK in 2007, our stores created 487,000 tonnes of waste. This figure represents a reduction of 9% compared with the previous year, when the amount of total store waste was 535,000 tonnes. In 2007 we recycled 342,000 tonnes or 70% of this waste, mostly cardboard and plastic. The remaining waste was compacted on site and sent to landfill. This was below our target to recycle 75%. We will improve our processes and continue to trial technology to ensure that we meet our longer-term target to recycle 80% of our waste by 2009.

It is important that we find ways of diverting waste from landfill that are sustainable. Tesco is the largest recycler of cardboard in the UK. In a closed-loop system, this cardboard is recycled in the UK and finds its way back into our stores as product packaging within 14 days.

Disposing of food waste is a key challenge and we are looking for innovative solutions to tackle this. We donated surplus fresh food from 35 stores to homeless shelters in partnership with FareShare, a charity that works with food retailers to minimise food waste and feed disadvantaged people. We are also continuing to investigate the diversion of food waste into producing energy, but progress on making this a reality has been slower than we would have liked.

Biofuels We decided to sell biofuels in 2005 in the belief that they could help customers reduce their carbon footprint and decrease our dependency on oil as a source for transport fuel.

Since then it has become clear that the impacts of biofuels are complex and any environmental benefits depend on how the biofuels are made.

Our aim is to do the right thing for the environment and communities based on sound science. We recognise that the full impact of biofuels is not 100% clear. We are continuing to keep the science under review and to take note of expert opinion such as the Royal Society report on the future of biofuels.

This is particularly important because from April 2008, along with other petrol retailers, we are obliged by the government through the Road Transport Fuel Obligation to provide 2.5% biofuels in our petrol. We want to make sure that this well-meaning legislation helps customers reduce their carbon footprint by ensuring that our biofuels are sourced sustainably.

To help further understanding of the true impact of biofuels, we have asked the independent Sustainable Consumption Institute (SCI), based at the University of Manchester, to investigate. All SCI research will be made public.

Palm oil for food products We are active members of the Roundtable on Sustainable Palm Oil (RSPO) and nearly all palm oil in our own-brand products comes from RSPO members. We expect certified RSPO oil to become available at the end of 2008 and we are working on incorporating this into our products at that time.

Seafood We are playing our part in seeking to maintain a viable and long-term future for wild fish and shellfish populations. We seek to buy all our seafood from responsibly managed fisheries. We use the United Nations' Food & Agriculture Organisation (FAO) Code of Conduct for Responsible Fisheries as our sourcing reference.

Understanding seafood sustainability requires an assessment of complex factors. Tesco is the first UK retailer to have appointed a dedicated expert for seafood sustainability as an integral part of the commercial teams.

Beginning with the World Seafood Congress in Dublin in September 2007, and in a series of conferences worldwide with NGOs, we set out our view on defining seafood sustainability in a holistic way. We are the first supermarket in the world to do this. We believe the factors affecting seafood sustainability to be: stock depletion and impact on ecosystems; aquaculture; climate change; packaging and socio economic issues.

Genetically modified (GM) foods We do not sell any own-brand GM foods in the UK, and use of GM feed is prohibited in organic products. Where we do sell non-Tesco brand products with GM ingredients, they are clearly labelled. Some own-brand products in other countries do contain GM products, and these are also clearly labelled so that customers can make an informed choice.

Timber Tesco is committed to purchasing timber and timber products only from legal, sustainable sources. We use external certification to help verify this and to give our customers the opportunity to make informed choices. All sources of timber for our garden furniture range continue to be either Forest Stewardship Council (FSC) approved or sourced from members of the Tropical Forest Trust, who are committed to achieving the FSC standard through the certification support programmes of ethical auditors. In 2007, we were also able to confirm that our own-label toilet tissue, kitchen towel and face tissues are FSC certified.

Helping customers make green choices

Customers tell us they want to make green choices, but only if they are affordable, convenient and of high enough quality. Our goal is to make that possible.

Green Clubcard points One way we encourage customers to make green choices is to award Green Clubcard points to customers who recycle mobile phones and inkjet cartridges and reuse carrier bags. In 2007, customers gave a total of 305,000 mobile phones in return for 300 Clubcard points per working handset. We gave 100 points for each of the 765,000 used inkjet cartridges submitted in 2007. In addition, customers brought over 1,000 tonnes of Christmas cards to our stores for recycling, under our partnership with the Woodland Trust.

Product packaging We are helping to reduce product packaging and to make recycling easier. Our targets in the UK are:

- > to reduce the amount of packaging on own-brand products and branded items by 25% by 2010; and
- > to provide recyclability information on all Tesco own-brand products starting in 2008, which, together with expanding our recycling facilities, will help customers to recycle more.

We have developed an online database to support our packaging reduction programme. Suppliers enter information about their packaging, enabling us to identify opportunities for improvement.

In 2007 we reduced packaging on some own-brand products, such as electrical items and some clothing lines, by as much as 40%. Our commitment to reducing packaging resulted in saving almost 6,000 tonnes of glass on own-brand wine bottles, over 3,000 tonnes of paper board on our flower boxes and 2,000 tonnes of plastics on our fresh produce.

Recycling facilities In Ireland we responded to the Waste Electrical and Electronic Equipment (WEEE) Directive by hosting collection days across the country for customers and local communities to return old electronic equipment free of charge. Customers returned 15 tonnes of televisions and monitors, two tonnes of PCs, laptops, printers and scanners, as well as hundreds of other electrical items at just one such collection day. We are well ahead of EU targets for electrical and electronics recycling and are hosting more events across the country this year.

We estimate that our customers recycle approximately 200,000 tonnes of waste each year at our facilities in the UK. In 2007, we aimed to increase this by installing 30 automated recycling units, known as 'reverse vending machines', which separate different kinds of recyclable materials and compact them ready for recycling. This brings the total number installed to 45. Tesco is the first UK supermarket to provide automated recycling units, investing millions to install and maintain them.





FSC accredited Tesco tissues.



Reusable green trays help us save packaging.



Poster encouraging staff to save energy in Japan.



Reserved parking for hybrid cars in the USA.



Recycling facilities in Hungary.



Sustainably sourced salmon in UK stores.

These units are a 'one-stop shop' for recycling, accepting everything from carrier bags and plastic to glass and metal, making recycling quick, easy and convenient for customers. These machines have exceeded all expectations and customers have recycled more than double the amount compared with the previous facilities, recycling on average 8.3 tonnes each week compared with four tonnes previously. The automated units can hold roughly four times more than an equivalent standard unit, which means they have to be emptied less often, saving in transport and CO₂ emissions. We plan to have over 100 machines installed at our sites by March 2009.

Carrier bags We want to inform, encourage and empower customers to use fewer carrier bags. We believe that the right approach is to encourage customers to reuse bags rather than penalise them for taking single-use bags.

In Poland, we are reducing the 400 million carrier bags our customers use per year by extending our 'bags for life' range. New options include a popular jute bag which is selling at a rate of 30,000 per month. We were also the first retailer in Poland to introduce free degradable single-use bags as our standard carrier bag.

We met our UK target to reduce carrier bag use by 25% from the 2006 level of four billion by 2008 – over a year early. After just 36 weeks we achieved a 27% reduction – equivalent to over one billion bags saved. Our new target is to cut the number of carrier bags we give out by 50% by the end of February 2009 compared with May 2006.

We offer customers one Green Clubcard point for each carrier bag saved, and awarded over 700 million points for reusing bags last year. We have ensured that our customers have a wide selection of accessible and affordable reusable bags in our stores. We encourage customers to buy high-quality, reusable 'bags for life', giving customers a new one for free when they wear out. In 2007 we sold over 26 million reusable bags.

KPI	2007/8	
Landfill avoidance	To divert 75% of waste from landfill, as part of our long-term commitment to divert 80% from landfill between 2006 and 2009.	●
Customer recycling	To double the amount of customer recycling at sites where we introduce recycling units.	●
Carrier bags	Reduce carrier bags given out by 25% by May 2008 compared with May 2006.	●
● Below target ● Close to target ● On target ● Above target		
To view the complete KPI table, please go to:		
www.tesco.com/crreview08/kpi		

Promise

We will:

- > increase the proportion of waste from our UK operations that we divert from landfill from 70% in 2007 to 80% in 2009;
- > reduce the weight of packaging on Tesco own-label and branded products sold in the UK by 25% by 2010;
- > double customer recycling at sites where we introduce automated recycling units during 2008, from 2006 levels;
- > cut the number of carrier bags we give out in the UK by 50% by the end of February 2009, compared with May 2006;
- > reduce water consumption per square metre by at least 2% against a baseline of 2006;
- > work with the SCI to investigate the positive and negative effects of biofuels;
- > continue to source seafood in a responsible way; and
- > work to incorporate RSPO accredited palm oil into our products once it becomes available.

Our suppliers and Ethical trading





Buying fairly and responsibly

We want our relationships with suppliers to be mutually beneficial, and to buy from companies that have high standards.

More than 5,000 companies of many types and sizes across all continents provide us with thousands of products. We want these suppliers to be dynamic and successful because we can only be successful if they are. In 2007 we placed special emphasis on supporting smaller, local businesses. We also work hard to ensure that workers in our supply chain have fair labour conditions.

◀ A vegetable grower at Bahati Farm in Kenya, a supplier through the East African Growers' Association

Our suppliers

Our success depends on identifying and working with strong, dynamic and confident suppliers.



Position

Our suppliers provide thousands of products our customers want, from fresh produce to ready meals, clothing, furniture and electronic equipment.

We rely on an efficient, complex supply chain to deliver these products reliably, meeting high quality standards and giving customers value for money. We have over 5,000 direct suppliers, ranging from very small companies offering one product delivered direct to a few stores, to multinationals supplying lots of goods to our stores around the world via our international sourcing hubs in Hong Kong and elsewhere.

Critics sometimes argue that supermarkets use their power to force unfair prices and terms on suppliers – especially smaller ones – and fail to build long-term relationships which would allow them to plan adequately and invest in their businesses.

We do not believe that exploitative relationships with suppliers could ensure the quality, reliability and product development that our customers demand. We favour long-term relationships over short-term deals. We seek to get the best value from our suppliers so that we can pass this on to our customers, but we seek to do this in a fair way which reflects the costs our suppliers face. We need strong, dynamic and confident suppliers. Our success is tied to theirs.

Our approach is based on our core values – ‘treating people how we like to be treated’ and being ‘fair, responsible and honest’ in everything we do. We aim to be decent, legal and honest, work within voluntary and statutory codes such as the UK Code of Practice (see page 22), treat suppliers with courtesy and respect, and communicate openly.

From global to local

No.1

**ranked for fairness
by suppliers in
South Korea**

Progress

Working with suppliers

We value long-term relationships and have more than 1,500 suppliers with whom we have been working for five years or more. In many cases where suppliers have been working with us for a shorter period, it is because they are supplying new products to our shelves. We are committed to sharing customer views with suppliers as well as listening to suppliers to understand their perspective. For example, during 2007 we developed a system in the UK called TescoLink through which suppliers can access data such as store level sales of their products.

We have regular dialogue with our suppliers and try to develop confident and honest relationships so that concerns can be resolved and we can work together effectively. We also use formal processes to understand suppliers' views and identify how we can work together better.

Supplier Viewpoint We carry out an anonymous survey, called Viewpoint, to understand what suppliers think of us and identify areas for improvement across the business.

For example, we used Viewpoint to survey 200 suppliers in South Korea in 2007. They ranked us first of their three leading customers and said we were strong on fairness in work processes, communications, information sharing and trust in trading. We identified areas of improvement, which are reflected in our 2008 Community Plan projects.

UK Competition Commission Inquiry In 2007 and 2008 the Competition Commission continued its investigation into the grocery market, including the relationship between retailers and suppliers.

The Commission provisionally found that trends in supplier investment and product innovation in the grocery supply chain were positive. It provisionally found no systemic problems with the financial viability of UK suppliers. The number of small suppliers was found not to be decreasing and the Commission did not identify barriers preventing new suppliers from entering the market or existing suppliers from expanding.

Tesco supports the Competition Commission's proposals to extend the Supermarket Code of Practice to a wider range of retailers, which will help provide a level playing field across the industry. It will also help suppliers to have more relationships that are governed by the Code.

During the investigation the Competition Commission examined correspondence between retailers and suppliers. Its provisional findings found no systematic abuse of the supplier relationship. In fact, they found examples of best practice.

For full details of the investigation and some of Tesco's own submissions see www.competition-commission.gov.uk and www.tesco.com/talkingtesco



The UK Office of Fair Trading (OFT) issued a statement of objections in September 2007 stating that there had been collusion between supermarkets and dairy processors on the retail prices of some dairy products in 2002 and 2003. We reject any suggestion that we have fixed prices or damaged the interests of our customers and are defending the case vigorously. We always try to act in the best interests of consumers.

Local sourcing

Customers increasingly want products that contribute to the local economy and help local suppliers.

In Poland, we have launched over 3,000 lines across our bakery, meat, dairy, water and beer categories sourced from over 200 local suppliers. All products have special packaging and were supported by a marketing campaign which linked local products to local jobs. Sales increased by 18% in 2007.

In Ireland, we worked with local growers to produce over 3,500 tonnes of onions and 1,500 tonnes of peppers, which would otherwise have been imported.

Our Local Supplier Programme was active in 11 Irish counties in 2007. We gave suppliers more shelf space and promote products in-store using their county colours. We held two successful roadshows for suppliers in Galway and Cork, and plan to extend supplier roadshows in other counties in 2008.

In the UK our aim is to stock more local lines than any other retailer, making local produce a mainstream part of our ranges in all stores. We launched 800 local products in 2007, bringing the total to more than 3,000. Sales grew by over £400 million and we are aiming for £1 billion by 2011.

We completed a network of eight regional buying offices in 2007, with dedicated buying, marketing and technical teams. They met 500 potential suppliers at 15 roadshows, and are working with more than 100 new suppliers to develop products. Small suppliers can access a fund to cover initial costs and help them to expand.

Our suppliers continued

In 2007 we launched localchoice milk in around 760 stores in the UK as a result of a partnership with Dairy Farmers of Britain, Graham's Dairies and Robert Wiseman. This gives customers the opportunity to support small and family-owned farms through their buying decisions. We pay a premium to localchoice farmers and sell the milk at a slightly higher price. There are now 20 localchoice regions across England, Scotland and Wales, with the milk sourced exclusively from the region where it is sold. Our dairy team shares knowledge with local farmers to help them understand consumer trends, and they can take part in Tesco local marketing initiatives. localchoice sales are currently at 18 million litres last year.

Supporting farmers

We support farmers in the countries where we operate, helping them respond to what customers want. For example, all our fresh eggs and milk in the UK are British, as are 95% of our fresh beef, 85% of our fresh chickens and 80% of our fresh lamb and pork.

We engage and share information with farmers and growers through attendance at agricultural shows, producer clubs, a dedicated website and support for industry-wide bodies and projects.

Regional producer clubs meet every quarter, focusing on how we can help producers develop their business, especially through sharing customer trends with them. We support food chain research and have a dedicated website (www.tescofarming.com) to provide information about Tesco, our requirements and standards, latest news and how to supply us.

18m

**litres of localchoice
milk sold last year**

>> Case study: Dairy Farmers

In 2007 we launched an award-winning plan to help the UK dairy industry by identifying farming systems that improve commercial viability as well as meeting customer expectations for animal welfare and environmental impact.

We created direct relationships and contracts with over 1,100 dedicated Tesco dairy farmers – the Tesco Sustainable Dairy Group (TSDG). Tesco provides farmers with a guaranteed price for milk, which is independently reviewed twice a year taking account of farm input costs and market prices.

In return, farmers are expected to follow the recommendations of an advisory board – the Tesco Sustainable Dairy Project (TSDP). The board consists of 12 elected representative farmers from the TSDG, dairy processors, advisors and Tesco representatives. Its initial programme has four key 'pillars': herd health planning; animal mobility; calves; and environmental impact.

For example, we have funded workshops for all our farmers, providing practical guidelines on how to reduce lameness in dairy cows, which would otherwise cost dairy farmers a significant amount. Our objective is to help our dairy farmers reach environmentally friendly dairy farming practice and to this end we are currently gathering information to understand where we are and what the most appropriate next steps should be.

The work of the TSDG won the RSPCA Business Innovation Award in 2008. <<

UK Code of Practice The Supplier Code of Practice was introduced by the OFT in 2001, covering Tesco and several other large supermarket groups in the UK. It covers issues such as changes to agreed prices, contributions by suppliers to marketing costs, and dispute resolution. The Code was independently audited during 2004 and 2005, and no evidence of breaches by Tesco were found.

Nature's choice





H Weston & Sons supply us with cider in the UK.



Local products on sale in Malaysia.



Morelli's ice cream supplying our stores in Northern Ireland.



Informing customers of product provenance.



Locally made bread in the Czech Republic.



'Meet your local farmer' event in the UK.

We were the first supermarket to appoint a Code Compliance Officer in 2005 to act as a contact point for suppliers. It enables suppliers to escalate their complaints on a confidential basis. We welcome the Competition Commission recommendation that all supermarkets appoint such an officer in future.

All buyers undergo training on how to ensure compliance with the Code in their daily work, and how to achieve solutions that work for both suppliers and Tesco.

Suppliers are able to raise any concerns through routine contact with our buyers. If necessary, they can pursue the issue with more senior management. We find that most problems are resolved in this way. If they still feel unhappy they can pursue the issue with our Code Compliance Officer, or raise a formal complaint to the OFT under the Code. In 2007, no such complaints were made, and no issues were raised with our Code Compliance Officer, either formally or informally.

Nature's Choice

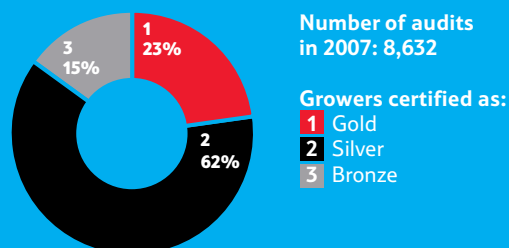
Our award-winning programme, Nature's Choice, which we introduced in 1992, applies to all growers for our UK business (approximately 12,000) and aims to ensure that fruit, vegetables and salad are grown to high safety, quality and environmental standards.

The standards cover issues such as the use of pesticides and fertilisers, pollution prevention, protection of human health, use of energy and water and other environmental issues. We have also introduced targets to improve biodiversity and landscape requirements.

Growers are independently audited against the standards every year, using a bronze, silver and gold rating. Suppliers must reach at least the bronze standard in order to supply us. The silver and gold ratings are designed to encourage suppliers to seek continuous improvement of their environmental standards.

A warning 'yellow card' is issued to a grower if a critical failure is discovered. We work with suppliers to try and ensure they can improve their performance, but if they receive two yellow cards, or fail a critical control point, we will suspend supply from them until they correct faults. There were 40 yellow cards in 2007, all relating to technical compliance with the use of permitted pesticides, which did not affect health or safety.

An important development in 2007 was the adaptation of the programme to ensure that smaller growers, especially in developing countries, are not excluded on purely technical grounds if they meet the spirit of the standards.



40
yellow cards
issued to growers
with audit failures

Our suppliers continued

Animal welfare


We aspire to high standards of animal welfare wherever we operate and we support research in this area. In the UK we have livestock codes of practice that cover all aspects of animal husbandry, animal welfare requirements, environmental impacts and food safety. All meat, poultry, eggs and farmed fish suppliers must be members of an independently audited and certified farm assurance scheme. Overseas suppliers to UK stores must be similarly certified with an equivalent scheme.

We employ a team of agricultural specialists to ensure that farmed animals are reared humanely. Independent auditors carry out unannounced inspections on the farms and abattoirs that supply us to ensure that our standards are being met. For example, in 2007 these specialists conducted 833 audits. If these audits raise concerns we inform the supplier and work with them to ensure appropriate action is taken within 14 days. If repeat concerns about a particular supplier are raised over two consecutive audits we will consider ceasing to work with that supplier at least until we have evidence that the concerns have been dealt with.

We do not support testing on animals for cosmetic or household purposes and do not carry out or commission such tests on our own-brand products or the ingredients in them. Tesco contributes £10,000 a year to the Fund for the Replacement of Animals in Medical Experimentation (FRAME), which seeks to end animal testing.

Many UK customers are concerned about intensively reared chickens. Our approach is to provide customers with choice and the information necessary to make an informed decision. We aim to increase sales of chickens raised with higher welfare standards by raising awareness, and pricing these products competitively. We do not want to penalise customers on a tight budget by removing lower-cost products on which many rely.



KPI		2007/8
Nature's Choice	To register all organic growers in countries prioritised for the first year of the three-year programme as part of our target to ensure all organic growers are registered to Nature's Choice by March 2010.	●
	To audit all organic suppliers in countries prioritised for the first year of the three-year programme as part of our target to ensure 100% of organic suppliers comply with Nature's Choice by March 2010.	●
Local sourcing	To grow sales of local products by 30% by March 2008.	●
Supplier relations	To monitor supplier relations through our Supplier Viewpoint Survey. Over 90% of our suppliers view us as being trustworthy, reliable, consistent, clear, helpful and fair.	●
● Below target ● Close to target ● On target ● Above target		To view the complete KPI table, please go to: www.tesco.com/crreview08/kpi 

Promise

We will continue to develop and maintain strong relationships with all our suppliers, based on our core values – 'treating people how we like to be treated' and being 'fair, responsible and honest' in everything we do.

In particular we will:

- > develop a plan to increase the number of suppliers who regard us as being trustworthy, reliable, consistent, clear, helpful and fair, building on the 92% of suppliers in the UK who view us in this way;
- > develop local ranges throughout the business including by setting targets for growth; in the UK we aim to increase sales on local products by more than 30% by March 2009;
- > continue our support for UK farmers, including trebling our sales of local choice milk by 2009;
- > help our dairy farmers to reach best environmentally friendly dairy farming practice within five years, through our Tesco Sustainable Dairy Project;
- > work with suppliers to develop long-term, mutually beneficial relationships, for example by training our buyers to follow codes of conduct and best practice;
- > develop our Nature's Choice programme to help our suppliers, including those in developing countries, raise safety, quality and environmental standards;
- > clearly label all own-brand eggs to ensure that customers understand whether they are from caged, barn or free range hens; and
- > redesign our farming website to ensure greater levels of information on animal welfare, more than any other retailer, so that customers can make an even more informed choice.

833

**animal welfare audits
conducted in 2007**

Ethical trading

At the heart of our values is our belief that we should treat people how we like to be treated.

Position

Our core values are 'no-one tries harder for customers' and 'treat people how we like to be treated'. As a mass-merchandise retailer, providing unbeatable value for customers means sourcing the best value products from around the world – at the best prices. This helps families stretch their budgets further, brings more products within the reach of ordinary people, and helps to drive economic growth and our own growth.

Achieving this involves sourcing from many different countries around the world – some highly developed and some less developed, with differing standards of regulation and enforcement. Some critics argue that our presence in developing countries worsens conditions for workers because we put pressure on our suppliers to cut costs.

We believe that, in general, trading with these countries brings benefits to them and to the people who work in them – as China's extraordinary 20 years of export-led growth and poverty reduction have shown.

But treating people how we like to be treated means ensuring as best we can that our values and our standards apply wherever we source. So we require our suppliers to meet strict criteria on labour standards, and have an ethical trading policy that commits us to working hard to address and make progress on the challenges we face, both in the UK and overseas.

The policy applies to primary suppliers of our own-brand products, as well as all loose, unlabelled produce. In 2007 we also began the process of extending our ethical trade programme to Corporate Purchasing, which buys all our goods not-for-resale.

The Ethical Trading Initiative (ETI)

As a founder member of the ETI, we expect all our suppliers to follow the ETI Base Code and guarantee their workers the rights set out within it.

The ETI Base Code

- > Employment is freely chosen
- > Freedom of association and the right to collective bargaining are respected
- > Working conditions are safe and hygienic
- > Child labour shall not be used
- > Living wages are paid
- > Working hours are not excessive
- > No discrimination is practised
- > Regular employment is provided
- > No harsh or inhumane treatment is allowed



www.ethicaltrade.org

Our approach

There are five stages to helping ensure decent labour standards throughout our supply chain:

- > finding good suppliers that share our values;
- > monitoring performance to identify issues;
- > addressing problems where they arise;
- > building capability to avoid issues before they happen; and
- > working with others to tackle complex and systemic problems that we cannot tackle on our own.

A fairer deal



Ethical trading^{continued}

Progress

Finding good suppliers

We only work with suppliers who can demonstrate they are committed to the ETI Base Code and share our values. We have over 5,000 suppliers across the Group, covering our entire range of food and non-food products. As our range grows, so does our supplier base. We evaluate all potential new suppliers to ensure they know the standards set out in the ETI Base Code and have the capability to meet them. Where major problems are identified we will not work with that supplier.

>> Case study: Jute bag suppliers in India

In 2007, we began work to ensure that suppliers of goods for our business (rather than for sale in our stores) will be subject to the same rigorous standards and processes as our food and non-food suppliers. This means everything from printing paper for our head offices to the bags available for customers at checkout. As part of our efforts to offer alternatives to plastic bags, we identified ten potential suppliers of jute bags in India. After following our ethical trade process, our buying team ruled out eight of them because they were not sufficiently confident that the suppliers would meet our standards. <<

Monitoring ethical performance

Suppliers can sometimes find it difficult to maintain the high labour standards we expect. To take action and help them improve, we need to know what is happening. We work hard to ensure that we get as detailed feedback as possible of the conditions in the factories and farms around the world that supply us. While we cannot monitor all our suppliers' sites all the time, we believe that our approach of risk assessment and auditing gives us an accurate picture of conditions.

How do we choose whom to audit? To target our resources most effectively, we make annual risk assessments of all our primary supplier sites, based on differently weighted criteria, including the country in which the supplier is based, the type of industry and the history of the supplier. Instead of using our own judgement to decide which sites are high or low risk, in late 2007 we moved to using the independent Sedex risk assessment tool for all primary supplier sites to the UK business. The Sedex tool allows us to gather much richer information about each site, including gender and ethnicity, languages spoken, and the split between temporary and permanent labour. In 2008, we will roll out the use of Sedex risk assessments to all our international businesses as well. Factories or farms identified as low risk are obliged to undertake a self-assessment process, which can then be monitored by Tesco. This is complemented by visits from our commercial and technical teams to confirm that their low-risk status should continue. All our medium- and high-risk suppliers must undergo an extensive ethical audit carried out by independent auditors from a list approved and verified for quality by Tesco.

How many audits are carried out? We have a target to ensure that 100% of our high-risk supplier sites are independently audited. While we achieved this in 2006, we only audited 73% of such suppliers in 2007 – even though we carried out significantly more audits than the previous year (455 compared with 221). This reflects a rise in the overall number of supplier sites, which increased by 25% and were disproportionately allocated a high risk rating as the business continues to expand into non-food areas. The introduction of the Sedex risk assessment tool in September 2007 also had an impact as a proportion of medium-risk suppliers were reclassified as high risk. As these changes did not occur until late in the financial year and resources had already been allocated to improving our auditing programme (see below), we failed to meet our target.

To help us meet our target in future years, we have increased the resource in our ethical trading team to cope with the higher number of suppliers as our business grows. And as part of a fundamental review of our ethical trading policy, we will also aim to slow or reverse the increase in the number of suppliers that we use and make sure those suppliers we do work with share our values.

What sort of audits are they? Of more than 1,800 audits of Tesco supplier sites in 2007, most were independent, 'announced' audits. This approach is important as it enables the auditors and the supplier to ensure that: the relevant members of staff will be present when the audit takes place; workers and worker representatives can plan a representative sample of worker interviews (vital for getting an accurate picture of workers' views of conditions at the site); and that any corrective actions can be agreed at the end of the audit.

However, we recognise that there are limitations to announced audits. These concerns are shared by some NGOs, particularly where such audits fail to find evidence of poor labour standards alleged by others. As a result, since 2006 we have sought to strengthen our audit programme in several ways.

- > We have undertaken an extensive series of unannounced audits to compare the findings with announced audits at the same sites and identify areas for improvement. In Bangladesh, China, India and Pakistan, 164 audits took place, which showed differences in some cases to the results of earlier announced audits. We will roll out an increased programme of unannounced audits next year.
- > In August 2007 we instigated verification audits at eight of our Chinese suppliers, where we believed there might be particular problems. Verification audits differ from a standard audit in that they focus on off-site worker interviews conducted without the knowledge of factory management. The results showed that some important improvements had been made since previous interviews in 2006 but that overall little had changed and some problems remained.
- > Based on these findings, we have developed an industry-leading Auditor Recognition Programme (see case study on page 28).
- > We have also sought to involve more multi-stakeholder representatives (such as from NGOs) on our audits to improve workforce engagement, and to enable activists to see and offer feedback on our approach.

5,000

**direct suppliers to Tesco Group
covered by risk assessments**



Good for you

Supplier Ethical Data Exchange (Sedex)

Sedex is a not-for-profit organisation that provides a web-based database of information on labour standards compliance. By enabling suppliers to share this ethical data with retailers the Sedex system helps to drive convergence on standards, and helps to reduce the cost and duplication of ethical audits for suppliers.

Tesco, a founder member, now requires all suppliers to register with Sedex, and uses the database to target where resources should be allocated (see Monitoring ethical performance, page 26). Since its launch in 2004, Sedex has grown rapidly; over 18,000 supplier sites in over 100 countries are now registered, and several key players in the food and drinks industry have recently joined, including Group Danone, Kraft, Mars, Nestlé, PepsiCo and Unilever.

www.sedex.org.uk



Ethical trading continued

>> Case study: Auditor Recognition Programme

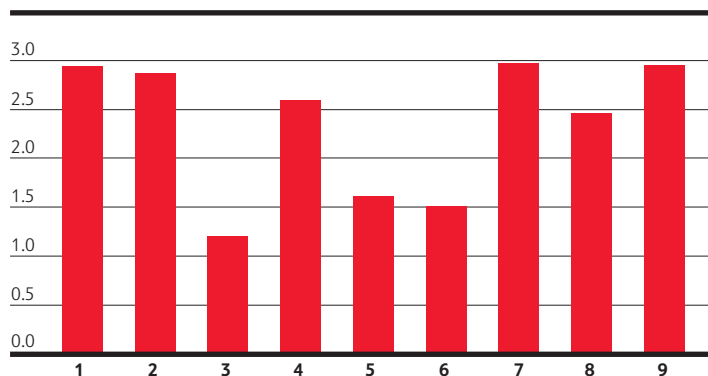
To tackle the inconsistency in the quality of auditors, which can vary significantly between the countries in which we operate, we have developed a list of individually named, competent auditors, rather than simply approving audit companies for work with Tesco as a whole. Companies were invited to apply for inclusion on the list and we received applications from a wide range of auditing organisations, following which a desk-based process for vetting auditor skills and experience was initiated. By the end of 2007, 454 auditors from eight organisations and four trade sector schemes had been recognised, covering 121 countries in total. A verification process is currently under way to check the competencies and experience of our newly recognised auditors. From 1 January 2008 all audits for Tesco must be carried out by one of these recognised individuals. We hope this will safeguard the quality of independent ethical auditing carried out for Tesco, and look forward to reporting progress next year. <<

Addressing problems

Every time we find a non-compliance with the ETI Base Code, we take action.

Our priorities on labour standards are to ensure there is no child labour, forced or bonded labour, or any form of abuse in our supply chain. We investigate any reports of such problems immediately – whether from suppliers themselves, from auditors or from other sources such as worker groups, NGOs and trade unions – and work directly with suppliers to stop them.

Such problems are rare. Our audit results (see chart*) indicate that issues in our supply chain are broadly consistent with those of other UK supermarkets. For these and other breaches of ETI standards, suppliers are required to develop corrective action plans. These are uploaded onto Sedex for review by Tesco (and other member retailers) so we can follow up these actions and make other improvements in labour standards.



Key: compliant = 3

non-compliant = 1

- | | |
|---------------------------|------------------|
| 1 Work freely chosen | 6 Hours |
| 2 Freedom of association | 7 Discrimination |
| 3 Health and safety | 8 Contracts |
| 4 Child and young workers | 9 Discipline |
| 5 Pay | |

* Data is from the ETI, based on corporate members' reports for 2006.

We expect improvement plans to be implemented as soon as possible and require all actions to be completed within six months, although our emphasis is on assisting improvement rather than simply policing deadlines. We do not want to 'cut and run' from difficult countries or difficult industries but, wherever possible, seek to help businesses develop into strong partners and ensure that the livelihoods of workers steadily improve. However, if suppliers continually fail to meet our standards and refuse to implement corrective actions, it is important that they know we will stop working with them. In 2007 we ceased trading with 11 suppliers owing to ethical trade issues, compared with three in 2006.

Assisting improvement

We have invested heavily in building the labour standards capabilities of our suppliers and our own commercial teams in 2007. All Tesco buyers must attend a half-day course to understand better the impact of their purchasing decisions on labour standards and to help them identify potential issues. Technical managers (responsible for standards and compliance within the commercial teams) attend a more intensive two-day course to ensure they can support buyers in managing these issues effectively. In 2007 we trained over 650 buyers and technical managers.

High-risk suppliers to our UK business attend our 'Supplying With Your Eyes Open' workshop to understand our requirements of them and help ensure good labour standards at their factories. In 2007 we ran 11 workshops in Hong Kong, China, Poland, Thailand, Bangladesh, Turkey and India, which were attended by 534 supplier representatives from both food and non-food sectors. These were delivered by consultants in the local language with a Tesco representative present. We are in the process of rolling out our supplier training programme to all our international businesses.

Where problems are particularly complex or systemic, we consider a further range of actions to help suppliers address them. This can involve visits by Tesco staff or independent auditors to the factory or farm to agree improvement programmes, or running extra training courses for a number of suppliers experiencing similar difficulties. For example in China, where long working hours are a common problem, we have provided training for factory supervisors to focus on effective production scheduling to minimise the need for long working hours and temporary labour.

>> Case study: Supporting our suppliers

The clothing industry for school uniforms in the UK is very competitive, especially on price, so we encourage dialogue with our suppliers to tackle potential labour standards problems before they arise. In meetings during spring 2007 with two of our major suppliers of schoolwear from Bangladesh, we agreed to extend the lead time so that the suppliers could ensure that all employees did not work more than the ETI-recognised limit of 60 hours in one working week. <<

11

suppliers delisted due to ethical trade issues



Affordable fashion

Working with others

We can do a lot to improve conditions in our supply chain through our improvement programmes and capability building. But tackling some of the complex and systemic problems in specific countries and industries requires working in partnership with others.

In 2007 we worked with these partners.

- > **Ethical Trading Initiative (ETI)** As well as setting out the core labour standards code which we seek to apply throughout our business, the ETI also provides a forum to investigate common issues in our supply chain. We play an active role by contributing to many of the ETI's working groups and projects. In 2007 these included the General Merchandise Group, Food Group, China Working Group, Wages Project, Homeworkers Group and Supervisor Training Working Group. Tesco chairs both the Food Group and the General Merchandising Group at the ETI.
- > **Global Social Compliance Programme (GSCP)** The plethora of labour standards codes adopted by retailers across the world has resulted in inconsistency in determining non-compliances, corrective actions and verification criteria. To address this, Tesco, initially with four other global retailers, formed the Global Social Compliance Programme in 2007. The GSCP has already agreed a draft Reference Code between the 25 leading retailers and manufacturers currently involved. The GSCP Reference Code has taken the highest standard from the many existing codes consulted to develop a 'code of codes', in preference to a lowest common denominator standard. Next steps involve the development of an audit checklist to ensure the Code is interpreted consistently around the world. Longer-term goals include closer collaboration and data sharing between members, joint efforts at capacity building with suppliers, and implementation of remediation plans across our common supply chains. Tesco chairs the GSCP board.
- > **Sedex (Supplier Ethical Data Exchange)** Tesco was instrumental in founding Sedex in 2004, and continues to play a central role in its development. Tesco staff sit on the Sedex board, Associate Auditor Group, and IT Development Working Group. Key developments in 2007 included the launch of the Sedex Members' Ethical Trade Audit Methodology (an important tool in driving convergence in standards), a review of the Sedex risk assessment tool, and a significant increase in members (see case study on page 27).

>> Case study: Working with the Environmental Justice

Foundation (EJF) Following a three-year investigation on Uzbekistan's cotton industry conducted by the EJF, which revealed the use of organised and forced child labour, our clothing team worked with the EJF to identify options for tracing cotton in our supply chain more rigorously, and for eliminating cotton supplied from Uzbek sources. In 2007 Tesco was the first UK retailer to announce that it was banning the use of Uzbek cotton by its suppliers. We hope the move, which has been followed by several other retailers, will put pressure on the Uzbek government to remove child labour from cotton farms and improve conditions for all workers. <<

KPI	2007/8	
Supply chain labour standards	To carry out independent ethical assessments of 100% of our high-risk own-brand suppliers.	●
	To train 100% of our high-risk own-brand suppliers.	●
	To ensure all commercial teams have received training on supply chain labour standards.	●
● Below target ● Close to target ● On target ● Above target		To view the complete KPI table, please go to: www.tesco.com/crreview08/kpi 

Promise

In 2008 we will build on our achievements by introducing a comprehensive plan to improve labour standards in factories and farms supplying Tesco.

This will include:

- > effective measurement of standards by continuing our audit improvement programme;
- > rewards for suppliers that demonstrate a commitment to improve labour standards; and
- > mechanisms for supporting poorly-performing suppliers by including investment in labour conditions expertise to enable us to work more closely with them.

We will be transparent about our progress to stakeholders, including our suppliers, NGOs, investors, and our customers in-store.

Customer choice, health and nutrition and Community impact





Listening and responding

Customers want us to contribute to healthy lifestyles and healthy communities. We aim to achieve this by being a good neighbour wherever we operate.

We listen to what our customers want and give them choice by providing relevant and personalised information, and ensuring that our products are affordable, rather than by dictating to them what they should buy. We similarly aim to manage our community impact in response to what local people tell us.

◀ Children taking part in our free eParan Environment Education Programme, the largest in South Korea

Customer choice, health and nutrition

Supermarkets have a responsibility to help customers make the right choices. We do that by offering a diverse range of products at affordable prices and providing the information people need.

Position

Supermarkets have made good quality and good value available to everyone, whether for food, clothes, TVs or home furnishings. Consumers have more choice and shop around more than ever before, making our marketplace incredibly competitive.

At the same time, awareness of issues such as health and nutrition, the environment and ethical trade is growing and customers increasingly want products and information that help them with these issues.

Critics are concerned that supermarkets have encouraged a proliferation of undesirable and unhealthy products such as ready meals, which they say lack nutritional value and often contain too much salt, sugar, saturated fat and additives. Some people also believe that the availability of cheap alcohol in supermarkets encourages excessive drinking. Our critics argue that, by extolling the importance of consumer choice, supermarkets pass the responsibility for helping to tackle these public policy issues to their customers and take no responsibility themselves.

We do take responsibility for helping to tackle these issues, but we believe in providing customers with the information and opportunity to choose whatever is best for them. Our approach is to make healthier, ethical and green products more affordable, more clearly labelled and more attractive for customers. We believe this is the most powerful and sustainable route to positive behaviour change. We do not believe in making decisions for customers – they are free to make their own choices based on the products and information we provide.

Everyone is welcome at Tesco and the range, quality and value of our products reflect this. Our core brands run from Value to Finest, with additional ranges that meet specific needs, such as Organics. We customise the ranges available in different countries to reflect the local needs of the customer.



In 2007 we relaunched our Healthy Living range with over 220 products.

Health and nutrition Healthy eating is a priority wherever we operate, as diets contribute to problems including malnutrition, heart disease and obesity. In particular, eating healthily on a budget remains a challenge. We want to help our customers, and work with governments, NGOs and others to tackle poor health and nutrition. In line with this we have engaged closely with the authors of the UK government's Foresight Unit Report on Obesity, to share our knowledge of the issues and discuss further areas for focus.

Our health strategy is based on three objectives:

- > providing better information on the nutritional value of products, and on how customers can improve their health;
- > making healthy options more accessible, through pricing and promotions, product improvements and healthy ranges; and
- > making it simpler and more attractive to lead an active lifestyle (see page 40).

Responsible alcohol sales The vast majority of people consume alcohol responsibly and should not be penalised for the actions of less responsible drinkers. However, we accept that we have a role to play in addressing the problems of antisocial and underage drinking. We already have strict policies to prevent underage alcohol sales, and we want to make sure alcohol is responsibly priced. But we recognise that there is a concern about the price of alcohol, and that industry must play its part in addressing this concern. To be effective, any action must involve the whole industry. However, competition law prevents businesses discussing anything to do with price with each other and imposes severe penalties on those who breach it. It would help us all to move forward in this area if government could lead discussions with the industry, so that retailers may avoid falling foul of such laws.

Progress

We are making good progress in helping customers choose healthier options and lifestyles.

Providing better health information

Customers want clear and simple information about how to live healthily. We provide this through nutrition labelling, our in-store pharmacies and on our website.

Nutrition labelling Nutrition labelling helps customers make informed choices about the foods they eat as part of a healthy lifestyle.

7,000
products with
front of pack labelling

We were the first to use the guideline daily amounts (GDA) concept developed by the Institute of Grocery Distribution (IGD) on our labels, which is based on UK government-backed science.¹

We chose this system because it helps people to plan healthy, balanced meals. GDA labelling has been adopted by over 50 manufacturers and retailers in the UK, and it appears on products in 25 of the 27 EU member states.

Some retailers in the UK use the traffic-light system, favoured by the UK Food Standards Agency. We believe that the traffic-light model produces inappropriate colours on some products, masks significant nutritional differences between products, and sends confusing signals through multiple colours on products. Nor is there convincing evidence that traffic lights are easier to use, or are used more effectively, than GDA labels. We continue to work with retailers, suppliers, governments and NGOs on the best way to communicate nutritional information to customers.

In-store pharmacies Our pharmacies work closely with local Primary Care Trusts in the UK to provide services ranging from reviewing medicine use to stop smoking consultations. As our stores are often open outside doctors' surgery hours, this provides an alternative to visiting the doctor for 14 million of our customers each week.

¹ Department of Health Report on Health and Social Subjects No 41. Dietary Reference Values for Food Energy and Nutrients for the United Kingdom. London, HMSO 1991.

Five a day

Online information

We are providing more information to customers through our website. In 2007, we launched a significantly updated healthy living website.

In November, we launched a Healthy Living Tracker on the site, to help people keep track of their diet and exercise habits. The Tracker calculates a person's allowance of different nutrients based on their weight, height, age and activity levels. It also considers the importance of each food type in a healthy, balanced diet. The Tracker then helps people to choose foods that will meet their allowance. We have had 35,000 people sign up for the tracker so far, demonstrating the demand for personalised information where the customer is in control.

Other services include tescodiets.com, the UK and Ireland's biggest online dieting and healthy eating service. Through it, we offer convenient weight loss advice tailored to suit individual lifestyles.

www.tesco.com/health



Customer choice, health and nutrition

continued

We began to offer free screening for diabetes at all our UK in-store pharmacies in 2007. An estimated 750,000 people do not know they have diabetes, as they are unaware of the symptoms. Customers fill in a questionnaire at the pharmacy counter. If they answer 'yes' to any of the questions, the pharmacist will give them a free blood glucose test, explain the results and give advice on the next steps.

We communicate about health and nutrition with our employees as well as customers. In 2007, we produced monthly special issues of our internal newsletter One Team. These included advice from a Tesco nutritionist, simple steps for employees to take to improve their diet, and healthy recipes.

We piloted a new staff room in our Amersham store. Following a staff consultation, we added fruit cups, a salad bar and sandwiches to the staff menu. We also improved facilities to provide the freshly produced options such as juices and smoothies that our staff wanted. We are piloting the use of GDA labels on signage in the Amersham staff restaurant. We aim to introduce the improved menu to a further 190 stores in the next 12 months and to all UK stores over the next four years.

Making healthy options more accessible

We make healthy options more accessible through pricing and promotions, product improvements and special product ranges.

Pricing and promotions We are tackling the perception that healthy food can be more expensive, through pricing and promotions. In Poland, we supported our new Healthy Living range with promotions in March 2007 and February 2008, including a permanent price reduction on over 50 products. In the UK, we ran over 200 promotions on fresh produce, fish, whole foods and Healthy Living products.

Our target for 2007 was to have five half-price offers on fruit and vegetables every week in 500 UK stores – our 'fruit and veg pledge'. We ran an average 23 half-price offers per week in 742 stores. This contributed to a growth in sales of fruit and vegetables by 8%. This promotion also runs in Ireland.

Privacy and data protection

Collecting information about customers and monitoring their shopping habits helps us to tailor our services and information to individuals.

We collect customers' personal details when they register for our Clubcard loyalty scheme or home delivery service and use our services. We also collect information about customer transactions, including details of payment cards used and shopping habits, recorded through Clubcard use. We never pass on personal data to companies outside Tesco, except to suppliers that process data on our behalf. We use aggregated data (where individual customers cannot be identified) for marketing and strategy development.

Responsible drinking

We already have measures in place to ensure we sell alcohol responsibly. Although customers need only be 18 to legally buy alcohol in the UK, our Think 21 campaign requires employees to ask anyone who looks under the age of 21 for proof of age. A prompt appears on the till screen when an alcoholic item is scanned to remind cashiers to check the customer's age. Our home delivery service will not deliver alcohol if no one over 21 is in the house. We step up the Think 21 campaign in the run-up to Christmas, when we sell more alcohol than at any other time of year.



230

UK store pharmacies offering health checks

Product improvements We are improving the nutritional value of our products. All own-brand products in our US Fresh & Easy stores (1,600 lines) contain no artificial colours or flavours and no added trans fats. In Poland we are reformulating products to remove additives and preservatives.

In 2007, we improved the nutritional content of 900 products in the UK, reduced salt levels in over 200 and reduced the fat content in over 150. Analysis of Clubcard data illustrates the powerful combination of product reformulation and visible GDA labels, in ensuring our customers are able to access more healthy meals. Thanks to the application of these labels, fewer customers regularly purchase ready meals with more than 40% GDA of salt, saturates or fat than before the labels were introduced.²

² Source: Dunn Humby Frozen Ready Meal Analysis, 2006.

Special product ranges In 2007, we continued to expand our Healthy Living range, launching it in the Czech Republic and Slovakia. In Ireland, we introduced over 400 healthy eating lines, both branded and Tesco own-label.

In the UK our research has shown that customers have different ideas of what health means to them and our Health brands and foods had to change.

To help our customers, whatever their outlook on health, we have therefore revised and relaunched our healthy ranges.

For example, dieters want low-fat, low-calorie meals without having to compromise on taste, so we launched our Light Choices range with over 250 products. All these meals meet strict criteria for sugar, saturates, salt and calories and are either 3% fat or have half the fat of a comparable product.

Nutrition labelling

In 2007, we continued our roll-out of front-of-pack nutrition labelling across the Group, including in Turkey, South Korea and Poland, where 33% of our products contain such labelling, and Ireland, where we now have over 5,000 labelled food items. We are committed to increasing rapidly the number of labelled products throughout the Group during 2008.

This builds on our achievement of being the first supermarket in the UK to introduce front-of-pack nutrition labelling, and we are still the only supermarket where all eligible products carry the labels – over 7,000 in total.



Health checks

Health checks are now available in our 230 in-store pharmacies in the UK, to help customers keep track of key health indicators. For £10, customers receive a 20-minute consultation and a personal Health Check Record Book containing their key health indicators and advice on maintaining and improving health. Our pharmacists check customers' weight management (including height, weight, body mass index and waist measurement), blood pressure, cholesterol levels and indicators for diabetes. Customers receive advice from the pharmacist on what the results mean, plus advice on simple diet, exercise or lifestyle changes to improve their health. They also receive a pedometer to help track exercise levels, two weeks' free membership of tescodiets.com and a day's free gym pass.



Customer choice, health and nutrition

continued

Our Healthy Living brand has been redesigned completely. We know that there are a large number of customers who want convenient solutions to help them get a controlled and balanced intake of total fat, saturated fat, sugar and salt. The updated range of 220 products includes wholefoods, wholegrains, fruit or vegetables and superfoods, with nutritional criteria for each category based on the Guideline Daily Amounts, so the products will be natural sources of desirable nutrients.

Responsible alcohol sales

Problems around antisocial drinking are complex and require retailers, the government, police, community groups and experts to work together to develop solutions. We have been working with relevant groups to ensure we can play our part in tackling these issues (see case study below).

Our cashiers receive refresher training on age-restricted sales four times a year. They learn to assess a customer's age by sight, ask for proof of age if they look under 21, and check that their identification is valid. Cashiers are then tested using mystery shoppers between the ages of 18 and 21. During a four-week long pilot in October, the pass rate for cashiers correctly assessing customer age increased by 64%.

>> Case study: Cambridgeshire Alcohol Project: St Neots

The Cambridgeshire Alcohol Project (CAP) aims to reduce underage drinkers' access to alcohol by breaking down barriers between shopkeepers and the police. The pilot project was carried out in St Neots, where all 16 local alcohol retailers signed up, along with Cambridge Trading Standards and the local police. Managers of supermarkets, including Tesco, and small corner shops agreed to share information about underage drinkers, while the police and Trading Standards committed to sharing information about suspected problems.

CAP uses a holistic approach, tackling both underage buyers and those buying alcohol for them. The pilot participants attended assemblies and leafleted local schools to teach young people about alcohol law and the legal consequences of underage drinking.

The police responded to intelligence received as result of CAP, and confiscated alcohol from several groups of young people in the town. The St Neots pilot won the National Business Awards Better Regulation prize for its innovative approach to tackling alcohol misuse. <<



Promise

We will continue to provide our customers with the quality and value they want, wherever we operate, while ensuring that we provide products, services and information to enable our customers to choose healthier, greener and more ethical products.

We will:

- > increase the number of GDA labels to cover 78% of eligible own-brand products outside the UK, aiming towards 100% within the next two years;
- > review the product composition of a further 500 products in the UK to reduce the levels of salt, fat, saturates and sugar;
- > extend our product reformulation programme beyond the UK as our own brands grow internationally;
- > offer our support in helping to develop proposals that address the problem of antisocial drinking, recognising that we have a role to play in addressing the problem;
- > continue to focus on helping our staff to lead healthier lifestyles, including by rolling out our improved staff menu to a further 190 stores in the next 12 months and to all UK stores over the next four years;
- > increase the number of lines in our Healthy Living, Light Choices and Disney Kids ranges to ensure our customers can access healthy options;
- > continue to offer half-price promotions on at least five items of fruit and vegetables every week as part of our 'fruit and veg' pledge and we will extend it to all our international businesses; and
- > continue to develop our online and in-store pharmacy tools to give customers personalised information to help them lead healthier lifestyles.

KPI	2007/8
Healthy living	To deliver five half-price offers on fruit and vegetables every week across at least 500 stores. ●
<ul style="list-style-type: none"> ● Below target ● Close to target ● On target ● Above target 	To view the complete KPI table, please go to: www.tesco.com/crreview08/kpi 

Community impact

We want to have a positive impact in the thousands of communities around the world in which we operate, from Birmingham to Beijing to Budapest.

Position

We want to play a positive role, to be a good neighbour in line with our customers' expectations. Those expectations vary from place to place, but there are many common issues and impacts wherever we have stores.

They start from when we announce an interest in building a store and continue through the planning process to when the store is built. We need to listen and respond to communities throughout that process. Once a store is open, our aim is to contribute to local communities by providing a great service to customers and quality local jobs that give people the opportunity to get on, by operating responsibly and by supporting community activity.

Critics claim that supermarkets have a negative impact, disrupting traditional shopping patterns and community activity. They suggest that a Tesco store takes trade away from independent retailers, from high streets and town centres, threatening the vibrancy of communities, and that our stores do not reflect the communities in which we operate.

We strive to bring quality, affordable products to our customers and to respond to changes in society so that we can use our position as a force for good in local communities. Our approach is to play a positive role through the operation of our stores, our staff and our community programmes, and to minimise any perceived negative impact.

One way in which we respond to changes in society (such as the expansion of car ownership and the growth in the proportion of working women) is by adjusting the type, size and location of shops. Government planning policies also influence supermarket development. Policy in the UK has shifted from encouraging large out-of-town stores in the 1980s to emphasising the importance of town centres. Economic and social regeneration, and the task of lifting communities out of social decline or deprivation, are priorities in many of the countries in which we operate. We help address these issues by adapting our formats and our offer, meaning that we can bring jobs and investment to areas that other retailers would reject.

Progress

Listening to communities

Our commitment to being a good neighbour means we need to understand and respond to what people want. We consult on potential new store openings, informing local people of our plans and inviting feedback. For example, in the UK we hold public exhibitions as part of our consultation process with local communities on every planned Tesco superstore or Extra and on major extensions. We also talk to local traders about how our proposals can attract new customers to the area and improve business for everyone.

New stores



Community impact^{continued}

This kind of dialogue continues once a store is open and results in changes such as fitting Express convenience stores in the UK with new shop fronts so they blend in better with their surroundings. In the US, we have designed our trailers to reduce noise by 66% and will not make night deliveries to stores with homes nearby.

We are introducing Community Boards in stores in most countries where we operate, giving local people and organisations the opportunity to advertise local events and initiatives. We encourage our stores and car parks to be used by local groups and charities, adding to our role as a focal point in the community.

Land holdings We buy land in order to open or extend stores, and we aim to move from acquiring the land to opening the store or extension as quickly as possible. However, owing to the complexities of property development, the planning system and our innovative mixed use schemes, which sometimes include assembling sites from several parcels of land, this can take several years.

UK Competition Commission inquiry The UK Competition Commission's investigation of the UK grocery market continued during 2007 and 2008. The UK Competition Commission's provisional findings dismissed concerns that Tesco's position in the market means that other retailers cannot compete or is acting as a barrier to expansion to other grocery retailers. It found that supermarket entry into the convenience sector has not distorted competition, and that convenience stores that provide consumers with a strong retail offer will continue to survive and prosper.

The Competition Commission has recognised that the market is delivering a good deal for customers.

For full details of the investigation and some of Tesco's own submissions see www.competition-commission.gov.uk and www.tesco.com/talkingtesco

New stores In response to social and policy changes in the UK in recent years we have extended opening hours and moved back to the centre or edges of town. Many of our newer stores are built on previously developed 'brownfield' land (98% in 2007) close to town centres, and often in areas that other developers will not consider. They provide jobs for local people and help to regenerate communities, attracting other retailers as well as our shoppers.

The impact of supermarket store openings on existing shops has been controversial, but there is plenty of evidence of a positive effect. A UK study by Southampton University's Professor Neil Wrigley (cited in his evidence to the Competition Commission) found positive outcomes from the conversion of convenience stores to Tesco Express in four Hampshire communities, specifically:

- > a major re-localisation of food shopping away from distant superstores and towards stores in the local community;
- > important travel changes involving significantly increased walking and cycling and reduced car mileage;
- > highly positive community responses to, and increases in consumer welfare from, being able to access products locally (particularly fresh foods); and
- > negligible diversion of trade from local independent stores and indications that local retailers and service providers might experience gains.

Tesco is also committed to sustainable, mixed-use development. Our scheme in Woolwich, London, promises a major transformation of the local town centre. In partnership with Greenwich Council, Tesco is providing a Tesco store and other retail space, over 900 homes, public spaces and a new Civic Centre including a library. This £400 million development will create a vibrant resource for work and leisure.

Workers in Malawi making porridge for local children, part of a Mary's Meals programme in the country, which we sponsor through our Charity Trust.



7,000

disadvantaged children in China supported through school in 2007

In February 2008, HRH Prince Andrew attended the opening of our Fresh & Easy store in Compton, Los Angeles. The store was welcomed by local officials, including County Supervisor Yvonne Burke and Compton Mayor Eric Perrodin, as providing jobs and investment in an area that other retailers had avoided.

Regeneration and employment

Through our Regeneration Partnerships in the UK we open new stores that help to revitalise disadvantaged communities where lack of economic opportunity has led to a range of social problems and low investment. These areas may not appear to be attractive propositions but they offer business opportunities for us as well as significantly improving the overall economic wealth of the area and attracting other businesses to invest.

We aim to recruit local people who have been unemployed for six months or more, in these stores. We assess aptitude rather than experience or existing qualifications. As part of our Job Guarantee Scheme, as long as applicants complete the six-week training course preparing them for working in-store, we guarantee to give them a job, unlike many such training opportunities elsewhere, which do not result in employment.

Over the past eight years, we have completed a total of 20 regeneration partnerships, creating more than 4,000 jobs for people who have been unemployed for years. In 2007 we provided job guarantees to almost 500 people when we opened Regeneration Partnership stores in Failsworth near Oldham, Rutherglen outside Glasgow, Maesteg in South Wales and Haydock, just east of Liverpool.

Failsworth is a regeneration partnership store in an area designated as an underserved market by the UK government. Our job scheme in partnership with the local council created 73 jobs for local long-term unemployed people when the store opened in summer 2007.

In addition to the job scheme, we have also formed the Failsworth Business Forum, bringing together local businesses to talk about ways in which Tesco and the new store can help them do business better – whether through business advice or advertising in-store. We are also participating in an allotment scheme, which will provide the local community with a facility where they can grow, use or sell their own produce.

Local Employment Partnerships Tesco was one of the original six signatories to the UK government's Local Employment Partnerships (LEP) scheme. We are working with Jobcentre Plus to provide job opportunities for the long-term unemployed and will be extending the scheme to existing stores throughout 2008.

Community investment

Once a store is open we aim to make a contribution to the local community beyond serving customers and providing local jobs. Our involvement varies from country to country but we typically support environmental action, healthy lifestyles and children. Many countries also choose a Charity of the Year as a focus for fundraising.

We aim to give at least 1% of pre-tax profits to charity. In 2007 our total contribution came to £54.4 million or 1.95%.

Disaster relief We respond to local needs following emergencies and disasters. In 2007 we made donations including £20,000 to the Red Cross appeal to support victims of the floods in Asia, £10,000 to bring relief to those affected by the hurricanes in the Dominican Republic where we source much of our Fairtrade banana crop, and £10,000 to a Red Cross appeal to support those affected by the unrest in the Rift Valley in Kenya where we source several of our produce lines.

Community Champions

Our stores are busy places and there may not always be time to do all the things we would like to do when people ask for our help. So, in 2007, we launched Community Champions in 22 of our UK stores. The idea is that we ask a person who loves working with the local school, or the local charity to do just that – help them.

The role is dedicated to understanding and making links with the local community and using Tesco resources to make a difference. Where Community Champions are in place, stores have raised at least an additional £1,000 for local charities. Activities range from supporting organisations such as the local police in raising awareness of appropriate car seats for children, to collecting toys and tins of food for the Salvation Army in the run up to Christmas. We will roll the trial out to a total of 50 stores in 2008 and have plans to deliver a similar project in China.

In February 2008 we donated £20,000 through our business in China to the local Government Ministry in the Guangzhou province, which was particularly hard hit by the worst snow storms in 50 years. We also donated food and daily necessities to local disabled people.

In the wake of flooding in Malaysia, Tesco provided £25,000 in aid for victims in three states, benefiting 6,000 homes. We provided basic necessities such as dry food items, drinking water, nappies and toiletries such as soap and shampoo. On 29 December, 48 colleagues from the Klang Valley stores and head office volunteered to clean up areas affected by floods in Pahang, such as a kindergarten, a library and a community centre. The team also donated food and books to local residents.

The British Red Cross is our official emergency partner and in 2007 we worked together to bring relief to the thousands of people affected by the floods in the UK. As the floods hit we acted immediately to deliver much-needed bottled water to the area, providing half of the emergency water supplies during the crisis. We also donated over £76,000 of essential items, including food, hygiene packs and sleeping bags, and our local staff worked hard to look after customers – sometimes overnight. We were also the first company to donate £100,000 to the British Red Cross Flood Emergency Fund and we held a customer collection in our stores which raised £52,000.

Education We have a responsibility to contribute to the capabilities of tomorrow's workforce, which includes training and development (see page 46). Education is one of the key areas where customers believe our support is very important, and where we can make a real difference.

As we open and refit stores in China we provide sponsorships for local students to cover schooling and textbooks. Tesco supported more than 7,000 disadvantaged students in 2007. In Hungary, we have set up local partnerships with schools and colleges, making donations worth approximately £50,000 a year.

Community impact^{continued}

In Poland, Tesco for Schools ran for the sixth time in 2007. Half of all schools in Poland, approximately 15,000, have taken part in the programme. We provided more than 4,000 schools with equipment worth 6.5 million PLN (approximately £1.5 million). We also worked with the Teachers' Association and the Consumer Federation to educate young people in nutrition, helping them to make healthy shopping choices.

Computers for Schools ran for the 16th year in 2007 – making it the UK's longest running schools' programme. Since 1992 we have donated approximately £118 million worth of computer equipment to over 30,000 schools. In 2007 around 20,000 schools received equipment worth £7.5 million, including more than 1,600 computers. Customers receive one voucher (subject to some exclusions) for every £10 spent (every £5 spent in Express stores). They donate the vouchers to their local schools, which exchange them for free equipment from our catalogue. Since 2006, schools have been able to collect additional vouchers (690,000 vouchers so far) by recycling old mobile phones and inkjet cartridges.

Tesco Ireland has run Computers for Schools since 1998. Since the scheme began we have donated 3,000 computers and over 50,000 additional items, bringing the total invested in the scheme to over €10 million. The range of equipment and materials now includes items such as digital cameras, arts and crafts materials, and Irish language, literacy and numeracy software.

In South Korea we offer the largest environment programme for children, for free. The annual eParan Environment Education Programme educates children on the importance of protecting the environment. This programme has been offered since 2000 and 14,000 children have taken part so far.

Promoting healthy, active lifestyles One of our priorities is to help customers live healthier lifestyles through offering the right opportunity, information and incentive (see Customer choice, health and nutrition section on page 32). In 2007 we launched active lifestyle campaigns in several countries, including Thailand, where we offered an aerobic exercise campaign to customers. In Turkey we worked with three NGOs to get 5,000 people active at walking, cycling or running events supported by Tesco.

As part of our UK Community Plan pledge to get two million people active by 2012, we support a variety of activities aimed at increasing participation in sport and other aspects of a healthy lifestyle. There are several programmes in the UK, including the following.

- > **FA Tesco Skills Programme** – a three-year partnership with the National Sports Foundation and the Football Association, beginning in 2007. We aim to get a million children active and involved by 2010, providing them with top-quality skills coaching.
- > **Tesco Great School Run** – children are invited to take part in the event, which is held simultaneously in schools across the UK and Ireland, as a fun exercise and to encourage them to think more about healthy eating and the importance of physical activity as part of a balanced lifestyle. The initiative also aims to persuade teachers and education chiefs to make sure that sport and recreational activity figure high on the academic agenda. Almost 700,000 children participated in 2007, the second year that the event took place.
- > **Cancer Research UK's Race for Life** – supported for the sixth consecutive year in 2007, when 655,000 women, including nearly 22,000 Tesco staff, took part in events. We also supported the Cancer Research UK 10k runs for the third time in 2007 – 38,000 men and women helped to raise £3.8 million.



Race for life

Tesco has helped Cancer Research UK raise over £180 million since 2002 by supporting Race for Life.



Charity of the Year fundraising in Ireland.



Supporting school sports in the UK.



Raising money for the British Red Cross in the UK.



Getting active with Tesco in Thailand.



Tesco stage at the Wales Millennium Centre.



Cultural centre in South Korea.

Charity of the Year Several of our businesses choose a charity to be the main focus for staff fundraising. Our business in the Czech Republic decided to work with children's hospitals, and we worked with the Red Cross in Slovakia and the Red Crescent in Turkey.

In Hungary we are working with the Salva Vita Foundation to provide training and opportunities in-store to help people with intellectual disabilities return to the job market. By the end of 2007, we had seven disabled colleagues working with us. We have extended the programme to more stores and aim to have 50 disabled colleagues in stores by the end of 2008.

In Ireland, the Charity of the Year 2007 was Temple Street Children's Hospital, which serves communities throughout the country. Over €1.4 million was raised towards the redevelopment of the St Michael's 'B' Ward, which cares for neo-natal patients, premature babies and those up to 18 months old. The children may have long-term debilitating illnesses, or be in need of surgical and medical care.

In the UK, our Charity of the Year 2007 was the British Red Cross. The theme of our partnership was 'Crisis Care in your Neighbourhood'. Money raised by our staff will help people at a local level by funding crisis care services in local communities around the country. We raised £4.55 million, more than double our target and a record fundraising total since Charity of the Year began in 1988.

15,000
schools in Poland in Tesco
for Schools programme

KPI	2007/8	
Regeneration	To initiate six regeneration partnership stores.	●
Brownfield sites	To develop 90% of our new stores on brownfield sites.	●
Charitable giving	To donate at least 1% of our pre-tax profits to charities and good causes.	●
Computers for schools	To increase the cumulative value of computer equipment to schools to £118 million and the number of new schools participating by 2,000.	●
Sport for schools and clubs	To supply sports equipment and coaching to schools to the value of £9.5 million, and to increase the number of new schools and clubs participating by 3,000.	●
Race for Life	To help recruit 800,000 women including 24,000 Tesco staff to participate and help raise sponsorship to £60 million.	●

● Below target
 ● Close to target
 ● On target
 ● Above target

To view the complete KPI table, please go to:

www.tesco.com/crreview08/kpi

Promise

In 2008 we will:

- > donate at least 1% of our pre-tax profits to charities and good causes;
- > support charities in a sustainable way through Charity of the Year and explore new and creative ways to fundraise, engaging staff and customers;
- > help get 3.5 million people active with Tesco through a variety of initiatives;
- > extend our pilot of the Community Champions scheme to 50 champions, one in each region of the UK, to engage staff and build relationships between Tesco sites and local communities; and
- > continue our Regeneration Partnerships scheme in the UK and help people who are unemployed and disadvantaged back to work through our Job Guarantee scheme.

Our people





Our people promises

People give more to their work when they feel valued. We invest in our people to give them the best and get the best from them.

We are committed to providing fulfilling, well-rewarded employment. We have a diverse workforce that reflects the local population and provides equal opportunities to all. We provide good training and development opportunities and offer an attractive pay and benefits package. We communicate with employees to understand their views and to share ours with them. In all that we do, health and safety in the workplace are a top priority.

◀ Staff from our Fresh & Easy store at Glassell Park, California, USA

Our people

We aim to provide a great place to work in all our markets. We employ local people and develop staff at every level, giving us home-grown managers.

Position

Tesco employs over 440,000 people in 13 countries. Our success depends on recruiting, developing and retaining the best people. Our employees deliver the customer service that our business relies upon, from making sure the right products are on the shelves to providing a friendly face at the checkout. We want employees to reflect the diversity of the communities they serve and our employment practices need to respond to the differing work and family demands in modern societies.

Critics say that supermarkets provide low-paid, low-skilled jobs with little prospect for development.

We believe that investing in our people is the right way to live our values and it brings sound business benefits. Tesco offers competitive pay and benefits and provides employees with comprehensive support and training. Developing individuals at every level means that we have home-grown managers who understand our culture and can effectively develop our business. Many of our leaders began their careers on the shop floor, including Board Director David Potts, who joined as a grocery assistant.

UK

UK employees are automatically enrolled into our defined benefit pension scheme after one year's service. The scheme, which is based on career average to ensure that store workers are rewarded for the amount of time they work as well as their final salary, includes life cover, cover for partners and children and ill-health retirement cover. In 2007, the pension scheme received the 'Pension of the Year' Award from the pensions industry weekly Professional Pensions and three further awards: Best Trustee Training and Development; Best Use of Specialist Investment Managers; and Best Pension Communication.

Europe

In Turkey, 100 senior managers completed leadership training in 2007. We have also carried out extensive training for all staff in Turkey to prepare them for promotions, as the business has nearly doubled in the last year. We have created 1,077 new jobs in the Czech Republic and promoted 296 people, while 892 people are on the Options development programme. In Slovakia we promoted 207 people and a further 765 people are on the Options development programme.



4,536

jobs created in China last year

We understand that people give more to their work and their customers when they feel valued. Our People Promises sum up our commitment to provide fulfilling employment:

- > to be treated with respect;
- > to have an opportunity to get on;
- > to have a manager who helps me; and
- > to have an interesting job.

We operate through simple management structures, delegate responsibility and aim for a culture of trust, where people are allowed to learn from mistakes and to challenge conventional thinking. We listen to employees and communicate at all levels through mechanisms such as staff question times and an annual opinion survey.

Progress

Diversity and inclusion

Our promise to treat employees with respect is reflected in our approach

to diversity, which is led by a Diversity Council comprising business function directors and chaired by a Board Director. The Everyone is Welcome at Tesco programme is the name we give to our diversity and inclusion work.

We want everyone at Tesco to meet their full potential regardless of age, gender, disability, ethnicity or sexual orientation. Our diversity strategy aims for a workforce at all levels that mirrors the communities we serve.

Our priorities reflect those of the countries in which we operate. We focus on employing local people and developing local leaders wherever we operate. Of the 180,000 people employed in our international business, fewer than 200 are from our UK business.

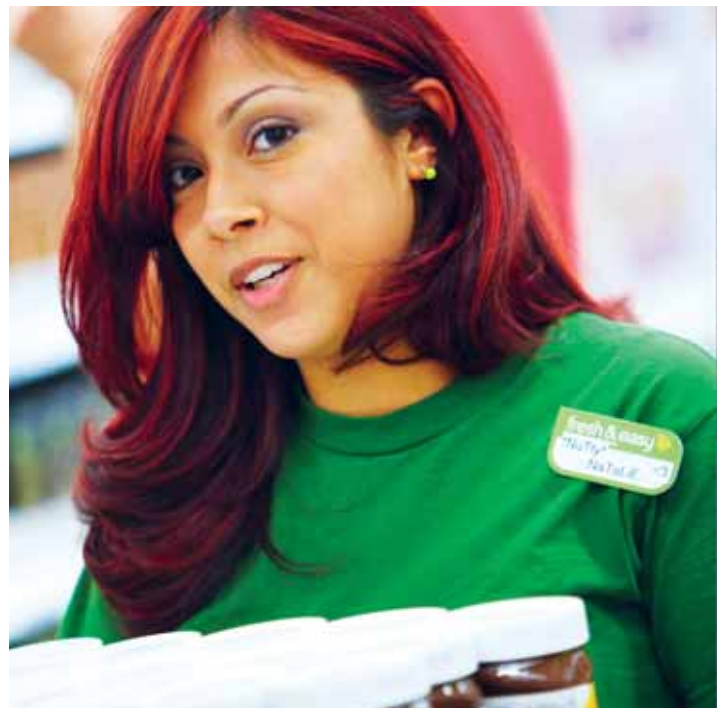
Ethnic and cultural diversity We do not discriminate on the basis of ethnic origin and promote understanding of different cultures to help staff work effectively together.

Asia

In 2007 we created 4,536 jobs and undertook an extensive training drive in China. We brought in existing Tesco programmes from across the Group to train managers on issues including core skills, performance management, technical requirements and legal issues and redesigned them to meet staff needs. We implemented the Options programme at store level and promoted 66 employees.

US

In the US, entry level positions start at \$10 an hour in California with similarly competitive salaries in other states, and include a quarterly bonus of up to 10%. As well as strong benefits, all employees receive life skills training which supports not only their performance at work but also their personal success at home and in the community. These benefits attracted over 1,000 interviewees for just 170 jobs in our first six stores.



Our people^{continued}

In the UK, stores celebrate cultural festivals such as Eid and Diwali alongside traditional British festivals. Our managers have a religions toolkit providing information on festivals, diet, fasting and prayer to help them understand and support people from different faiths. In 2007, this toolkit was updated to cover the growing range of cultures and countries our employees and customers come from, including Bangladesh, the Caribbean, China, Ghana, India, Pakistan, Poland and Somalia.

Age We have no retirement age in any of the countries where we operate and employ people in their 70s and 80s. In 2007, we launched apprenticeships in the UK for people of all ages to help them develop their careers.

Gender and sexual orientation In 2007, we launched the Tesco Women's Network which aims to help female managers and directors progress. Around 150 women from across the Group attended the launch event. We are in the process of forming a similar network for sexual orientation.

Flexible working We support flexible hours whenever possible. In the UK this includes family-friendly shifts, maternity leave for full- and part-time workers, paid paternity leave, equal training and development opportunities for full- and part-time workers, childcare vouchers and career breaks. We also encourage job sharing, flexi-time and compressed hours, shift swaps, home working and part-time working when practical.

In 2007, we agreed a range of new benefits in the UK in response to our employee survey. These include up to five days' paid leave to train as a foster parent, as well as paid time off for fertility treatment, and the opportunity to take leave for study and lifestyle breaks.

Training and development

We take training and development seriously and promise our people 'an opportunity to get on'. Developing our people means we have a workforce which can serve customers better and managers who thoroughly understand the business and the Tesco culture.

In China, we are recruiting management trainees locally and from our international operations. Our first seven Chinese graduates started working in Shanghai in July after completing their training in the UK. We are also training 42 local Chinese graduates and five MBA graduates from the China Europe International Business School in Thailand and Malaysia. Ten further graduates are currently training in the UK.

In Ireland we have a school leaver programme aimed at people who have completed their 'Leaving Cert' (higher school leaver's qualifications) in the previous two years; 73% of the current intake came from within Tesco. We also have a graduate programme in Ireland and have helped develop two National Retail Training Awards in conjunction with FÁS, Ireland's National Training and Employment Authority.

In the last three years we have appointed 27 directors, 200 store/depot managers and 8,000 department managers from within Tesco in the UK. Our Training Framework Scheme delivers most of our shop-floor and depot training in the UK and is accredited by the Qualifications and Curriculum Authority. In 2007, 94.4% of shop-floor and 96% of depot employees were trained to bronze level and 86.6% to silver level.

Helping Hands



8,000

department managers appointed from within Tesco in the last three years

We encourage continued learning throughout our people's careers. Our UK Lifelong Learning programme has created five workplace learning centres operated in partnership with the trade union Usdaw (Union of Shop, Distribution and Allied Workers). In 2007, there were over 500 enrolments for courses including basic IT, English, Maths and ESOL (English for Speakers of Other Languages). Many of these courses are free and attract qualifications. We are also exploring the possibility of providing a foundation degree in Retail Management and Leadership in the UK.

Rewards and benefits

We offer a highly competitive package of pay and benefits to all our staff. This includes staff discount, share schemes and an award-winning defined benefit pension scheme in the UK.

In the US all store employees work a minimum of 20 hours a week, which ensures everyone is eligible for medical, prescription drug, dental and vision coverage after 90 days of employment. Fresh & Easy pays at least 75% of the cost. Employees are offered a 401(k) (defined contribution) retirement plan with company-matched payments (see box on page 45).

In the UK, our competitive benefits package is worth an additional 17% for our customer assistants in stores, ensuring we now lead on pay against our food retailer competitors. Our Privilege card scheme gives all employees with over 12 months' service a 10% discount on shopping at Tesco. In 2007, we reduced the minimum qualifying spend to £1.

All employees can benefit from the wealth they help to create through three share schemes. In the UK we have around 175,000 employees who are also shareholders. Nearly 52,000 employees take part in our Save As You Earn scheme. Two such schemes matured in February 2008, with participating employees receiving shares worth £175 million. Nearly 43,000 employees receive tax benefits by buying Tesco shares from their gross salary through our Buy As You Earn scheme.

Taxation differs internationally, which can make some of these benefits less attractive. In some countries, we therefore focus on providing competitive basic pay and employee discounts.

Communication and consultation

To help us meet our People Promise of providing 'a manager who helps me', we invest in understanding employee views. The annual staff survey Viewpoint is anonymous and confidential, and can be completed during working hours. As a result, more than 90% of employees take part. Employees are free to join unions in the countries in which we operate. In the UK we have an industry-leading partnership agreement with Usdaw and every store has a union representative.

We communicate with our staff through many channels, including staff question times, face-to-face briefings, publications and our intranet (The Hub). Head Office staff keep in touch with issues on the shop floor through our annual TWIST programme (Tesco Week In Store Together) and through 'Helping Hands': at peak shopping periods such as Easter and Christmas all Head Office staff go into stores to support store colleagues.

In March 2008 we introduced a free fortnightly staff newspaper called The One to all our UK stores, offices and depots, covering a wide range of Tesco news, features and staff views.

Health and safety

The provision of a safe environment for our staff and customers continues to be a key focus for the business. All Executive Board Directors have been trained on health and safety issues and, to ensure that they command the right profile within the business, Lucy Neville-Rolfe, Executive Director, Corporate and Legal Affairs, is responsible for health and safety at Board level.

Our performance is actively monitored and tracked using reportable accident rates as one of the key measures on the corporate Steering Wheel. In addition the Compliance Committee of the Board carries out a detailed review of health and safety performance four times a year.

In 2006 we set a three-year target to reduce the rate of reportable accidents in our UK workplace by 10%. At the end of the first two years we have already comfortably beaten the target, with a reduction of 14%. Reportable customer accidents on our premises are also significantly down, by 15% since 2006. We will continue to strive to push the rates down even further.

We will continue to attract and retain the best staff based on our core value, 'treat people how we like to be treated', by making Tesco a rewarding place to work.

KPI			2007/8
Employee retention	To exceed 80% retention of experienced staff.		●
Employee training	95% of retail staff to be trained to bronze level.		●
	75% of retail staff to be trained to silver level.		●
Health and safety	To reduce our reportable accident rate in the workplace by 10% between 2006 and 2009.		●
Inclusivity and diversity	No statistical difference by age, sex or ethnicity in answer to the staff Viewpoint survey question, 'I enjoy working for Tesco'.		●
● Below target ● Close to target ● On target ● Above target			To view the complete KPI table, please go to: www.tesco.com/crreview08/kpi

Promise

- In 2008 we will:
- > develop our Managing Ethnicity and Managing Gender with Confidence Workshops;
 - > roll out our UK diversity training products and tools to Head Office and international operations;
 - > expand our employee networks;
 - > appoint over 3,000 new managers in the UK, 80% of whom will be internal appointments;
 - > reduce reportable accidents in the workplace by 3% year on year;
 - > extend our apprenticeships programme to 800 trainees in the UK; and
 - > train 97% of our retail and depot staff to bronze level of competency and 85% of our retail staff to silver level.

Managing Corporate Responsibility

Corporate Responsibility is a fundamental part of our business planning and strategy for growth.

Our CR strategy

Our Steering Wheel or balanced scorecard sets out our priorities for the key elements of our business: Customers, Operations, People, Finance and – since May 2006 – Community.



Our commitments under the Community segment of the Steering Wheel are to be fair, responsible and honest in everything we do and to be a good neighbour. These aims are integrated into the management of our business from decision-making to individual performance appraisals. We measure our success on meeting these challenges. Lucy Neville-Rolfe, Executive Director, Corporate and Legal Affairs is accountable for our CR performance.

To support these objectives, our Community Plans identify projects where additional resource and expertise can make a step change in our CR performance. We stated in last year's review that a key priority over the next two years would be the roll-out of the Community Plan approach to all our international businesses. Eight of our 12 businesses outside the UK had plans for 2007, and in March 2008, Malaysia, China and Japan launched Community Plans for the first time.

The Plans in our international business are based around four themes: climate change; local communities; responsible sourcing; and health and nutrition. They reflect the needs of the local communities that we serve and are also based on customer and stakeholder views. These are collected through our Customer Question Times (CQTs), meetings and surveys as well as other mechanisms. A full list of Community Plan projects for each country can be found online at www.tesco.com/crreview08/communityplan

In the UK, we announced six projects for 2008: tackling climate change; waste recycling and packaging; carrier bag use; Community Champions; making our Community Plan live in stores; and trading fairly (labour standards in our supply chain). Each Plan is sponsored by the relevant Board or senior Director. Sir Terry Leahy, our Chief Executive, is the sponsor of our climate change programme. Richard Brasher, our Commercial Director sponsors the projects on waste, recycling and packaging and carrier bag use as well as our new Trading Fairly Plan, which we hope to launch in summer 2008. David Potts, our Retail Director, is the sponsor of our Community Champions plan, building on the trial that has allocated part-time roles in 52 of our stores to strengthening links with the local community and organisations such as schools, charities and sports groups.

As a whole, the Board of Directors reviews our CR strategy twice a year. Our Executive Committee receives regular updates on our CR performance, assesses future CR risks and opportunities and develops our strategy in this area. Line managers are responsible for managing day-to-day operational risks.

We set ourselves demanding targets in each segment of the Steering Wheel and use KPIs to measure our progress. The Board of Directors reviews performance quarterly and the top 2,000 managers in the Company receive a summary report to communicate to their teams. Senior managers receive bonuses on a sliding scale based on performance against the KPIs.

We review our KPIs annually to ensure they are still the most accurate and robust measurements of our performance. As our international business continues to grow, we have defined a new set of KPIs for 2008, which cover the entire Group. These can be found on page 52.

Managing CR

Our Corporate Responsibility Committee comprises 16 senior executives from across the business, and is chaired by Lucy Neville-Rolfe, Executive Director, Corporate and Legal Affairs. The Committee meets at least four times a year to develop our CR strategy, review relevant policies and practices, identify opportunities to improve the sustainability of the business, agree and monitor our KPIs for CR, and engage with internal and external stakeholders on CR issues to raise awareness; twice a year, we invite external speakers to address the CR Committee and comment on our CR strategy, performance and reporting.

Each of our international businesses also has a Corporate Responsibility Committee led by the Chief Executive of that country or other senior Director.

Corporate governance

We have a responsibility to put in place clear, transparent and effective policies and processes for managing our business responsibly and in accordance with the law.

Corporate Responsibility Committee



1 Lucy Neville-Rolfe, CMG, Executive Director, Corporate and Legal Affairs (Committee Chair)

2 David North, Community and Government Director (Deputy Chair)

3 Terry Babbs, International Trading Law and Technical Director

4 Jonathan Church, Media Director

5 Ruth Girardet, Corporate Responsibility Director

6 Catherine Glickman, Personnel Director

7 Chris Griffith, International, Corporate and Legal Affairs Manager

8 Alasdair James, Category Director, Recycling, Waste and Packaging

9 Liz Kynoch, Group Technical and Trading Law Director

10 Alex Laffey, Transport Director

11 Andrew Mann, Director of Marketing Planning

12 Andrew Neale, Head of Facilities

13 Noel Robbins, Chief Executive, Central Europe

14 Emily Shamma, Head of Local Sourcing

15 Patrick Stones, Property Director

16 Nanbin Zhuang, Corporate and Government Director, Tesco China

We aim for the highest standards of behaviour at all levels in our business. This requires visible leadership and a clear framework, and for these to be well communicated so that employees know what is expected of them. Clear accountability is also vital. The Board of Directors has overall responsibility for managing risks to our business and reputation, including those relating to CR.

The Board agrees clear processes for monitoring controls through the Statutory Committees: Audit Committee; Nomination Committee; and Remuneration Committee. In addition, the Executive Committee monitors controls through three key committees: Compliance Committee; Corporate Responsibility Committee; and Finance Committee. These all provide assurance that the business is operating legally, ethically and to approved financial and operational policies. The Committee reports are circulated to the Board, which holds a formal discussion on each at least once a year.

There is more information about the roles, responsibilities and independence of Board members in our Annual Report, and at www.tesco.com/crreview08/corporategovernance

Stakeholder engagement

Engaging with the different groups that influence or are affected by our business is fundamental to our values. Understanding our stakeholders' needs and concerns also helps identify the relevant CR issues and enables us to plan our CR programme accordingly.

We have a wide range of stakeholders with many different needs and expectations, and these sometimes conflict. We can't be all things to all people, but we can assure all stakeholders that we have listened to them and taken their views into account when balancing different considerations (see table on page 50).

Managing Corporate Responsibility

continued

The table below shows the main issues raised by different groups and the process through which we engage with them. These issues are evaluated to rate their relevance to Tesco, our shareholders and our customers.

Understanding our stakeholders

Stakeholder group	Interests and expectations of Tesco	Interaction with Tesco in 2007
Customers	Good shopping trip. Good neighbour. Operate fairly and honestly. Provide a choice of products, including sustainable, healthy and affordable options.	Store operations. Marketing campaigns. New product development. Clubcard. Price promotions. Clubs and initiatives. Customer Question Time.
Employees	Fair terms and conditions. Interesting job. Manager who helps me. To be treated with respect. Opportunities to get on. Safe and healthy workplace.	Daily work. Staff Question Time. Staff forums. Annual Viewpoint survey. Regular Pulse surveys.
Communities	Good neighbour. More employment. Community regeneration. Support for local causes and initiatives.	Community initiatives. Public consultations and exhibitions. Leaflets. Focus groups. Consumer panels. Work with community groups including charities.
Suppliers	To be treated fairly and honestly. Long-term relationships, opportunities for growth and shared customer insight.	Direct commercial relationships with suppliers, processors and manufacturers. Viewpoint survey. Meetings, training sessions and conferences. Industry events.
Investors	Effective communication of strategy and performance. Good corporate governance and risk/opportunity management. Competitive returns and dividends.	Annual Report and general meeting. Investor updates. Investor relations website. Meetings with investor relations team.
Governments and regulators	Legal compliance. Stable, family-friendly job opportunities. Good quality training. Timely payment of all taxes.	Tax systems. Planning processes. Consultation on new regulation. Public policy engagement.
Non-governmental organisations	Leadership approach to CR issues. Clear policies and principles. Credible, transparent communication.	Meetings and presentations. Partnerships and membership of organisations. Campaigns.

Customers

Our Customer Question Time (CQT) meetings help us to identify and respond to changing customer needs. They are recognised as a key factor in our success in recent years. These meetings, held in stores around the world, enable staff and senior managers to hear customers' views on everything from how we are serving them to our role in the community. CQTs are used to drive our Customer and Community Plans. These Plans are the management tools we use to deliver continued improvement in customer satisfaction. We also held CQTs focusing on particular issues, including community and the environment.

Staff

To do a good job for customers, people need to feel good about the place where they work. It is important that our staff understand the principles that guide the way we do business and feel proud to work for Tesco. As such, it is vital that we listen to and engage with our people as often and as well as we do with our customers. Our staff give direct feedback through Staff Question Time sessions. They are also invited to give anonymous feedback through our annual Viewpoint survey. In 2007, over 90% of our staff completed the survey. The vast majority of staff enjoyed working for Tesco, thought benefits had improved, and thought they had an opportunity to get on. Our 'Pulse' survey also tracks staff views on how they feel about working for Tesco.

Communities

See Community impact section on page 37.

Suppliers

See Our suppliers section on page 20.

Investors

We maintain a good dialogue with shareholders by organising meetings and presentations and responding to a wide range of enquiries. We want to understand shareholder views on a range of issues from strategy to corporate governance and we recognise the importance of communicating any significant Company developments appropriately. This shareholder communication is mainly coordinated by our Investor Relations team. The Board is kept informed of the views of shareholders, either through direct meetings or through updates from the Investor Relations team.

As part of our engagement programme, we meet with representatives of the Socially Responsible Investment (SRI) community and with mainstream investors. These meetings give us the opportunity to provide an update on our corporate responsibility strategy and performance, discuss key opportunities and challenges and seek feedback to improve our future programme. Sessions during 2007 have provided constructive feedback, with Tesco seen to have taken significant steps in CR in the past 12 months, particularly in the areas on which the Community Plan has focused, such as climate change. Investors would like to hear more detail on our international approach – and eventually see a global CR Review, which we have tried to deliver with this Review, as well as more transparency on our reporting of issues, particularly ethical trade.

Government and regulators

We are also keen to have an open and honest relationship with political stakeholders, engaging with governments, MPs and officials on a range of policy issues that affect our business and the communities in which we operate. We do not make donations to political parties, nor do we employ political consultants to lobby governments on our behalf. Our Government and Corporate Responsibility teams work closely together to ensure that our responses to government consultations are aligned to our CR policies and practices. We do not ask government departments to withhold our submissions from public disclosure.

Public policy engagement

Business can play an important role in the development of public policy. By sharing its experience and expertise business can help shape policy that is effective and fit for purpose.

We are committed to being open and transparent in our engagement with governments and to focusing on those issues of most importance to our business, our staff and our customers.

In 2007 key issues included the environment, health and nutrition, planning and regeneration, productivity and skills and the environment. For example, we have called for a new framework to help deliver the transition to a low carbon economy and we made clear our commitment to taking an active role in government-led discussions around the introduction of legislation to ensure responsible pricing on alcohol and alcohol promotions.

NGOs

Engaging with non-governmental organisations (NGOs) can help us to better understand current social issues and concerns. Our partnerships and dialogues highlight new trends and emerging issues, give greater insight on environmental, social and ethical issues, and help us manage our impacts. We regularly meet with NGOs, respond to their questions and contribute to surveys and research.

We have met over 60 NGOs throughout the year through seminars and meetings. Engagement covered the full range of key issues for the business, including climate change, environmental issues such as biofuels, ethical trading and animal welfare. In April 2007, we held a nationwide Community Conference in partnership with the British Red Cross and the Work Foundation. This brought together voluntary groups, charities, businesses and government to explore the role of business in local communities.

We always respond to requests for information from NGOs as fully and as promptly as we can. In 2007 we contributed to research, surveys and information requests on a wide variety of issues, including our general CR performance, climate change, seafood sourcing, animal welfare and health and nutrition. We were awarded the highest rating (platinum) by Business in the Community in their annual Corporate Responsibility survey.

We always ask NGOs to share their findings with us to help us understand issues of concern, investigate if necessary and improve our performance wherever possible.

Key Performance Indicators

Our Key Performance Indicators (KPIs) for 2008 are set out below. These highlight specific areas on which we will focus, and against which our performance will be measured throughout the coming year, though there are of course many other areas where we will continue to work

to improve our performance, as highlighted throughout this Review. For the first time we have tried to ensure that our KPIs fully reflect our business across the world, demonstrating the importance we attach to being a responsible business wherever we operate.

Group KPIs

Environmental

- 1 Reduce the CO₂e emissions from our existing stores and distribution centres by at least 50% by 2020, against a baseline of 2006, with a reduction of 5% in 2008.
- 2 Reduce by 50% the amount of CO₂e used in our distribution network to deliver a case of goods by 2012, against a baseline of 2006, with a reduction of 10% in the UK in 2008.
- 3 Reduce CO₂e emissions from new stores by 50% on average by 2020, from a baseline of 2006, developing environmental format stores over 2008 with a view to rolling them out across the Group.
- 4 The Sustainable Consumption Institute to have commissioned a programme of research that seeks to fulfil its stated vision. In 2008, at least nine research papers will be circulated within and beyond Tesco which contribute effectively to improved understanding of key sustainable consumption issues.
- 5 Reduce water consumption per square metre by at least 2% against a baseline of 2006.

Ethical

- 6 Develop a plan to increase the percentage of suppliers who view Tesco as trustworthy, reliable, consistent, clear, helpful and fair, building on the 92% of suppliers to our UK business who view us this way.
- 7 Develop a plan to help suppliers improve labour standards in factories and farms supplying Tesco, building on existing expertise and experience, and including elements such as effective measurement of standards; rewards for success; and mechanisms for supporting poorly-performing suppliers.
- 8 Invest in additional labour conditions expertise to enable us to work more closely with poorly performing suppliers and help them improve.

Charity

- 9 Donate at least 1% of our pre-tax profits to charities and good causes in 2008.

Health and nutrition

- 10 To get 3.5 million people active with Tesco in 2008.
- 11 Increase the number of eligible own-brand lines with nutritional or front-of-pack GDA labelling to 78% of the total number of eligible brands in 2008 in our international business, building on the achievement of 100% GDA labelling in the UK for eligible own-brand products.

UK-only KPIs

Environmental

- 1 Trial the use of carbon labels on 100 products in-store in 2008 and develop customer literacy of product carbon footprints.
- 2 Reduce carrier bag use by 50% by the end of 2008, against a baseline of 2006.
- 3 Double the amount of customer recycling at sites where we introduce automated recycling units in 2008.
- 4 Reduce the amount of packaging we use by 25% by 2010, against a baseline of 2006, with a reduction of 10% in 2008.
- 5 Increase the proportion of waste from our UK operations that we divert from landfill from 70% in 2007 to 80% in 2009.

Suppliers

- 6 Increase sales of local produce to £1 billion by 2011.

Health and nutrition

- 7 All own-brand lines to be free from artificial colours, flavours and sodium benzoate by end of 2008.
- 8 Introduce 50 new lines on our Healthy Living and Light Choices health brands, and double the number of products in our Tesco Disney Kids range, which are nutritionally balanced with no hydrogenated fat and no artificial colours, flavours or sweeteners, to make it easier for our customers to make healthy choices for themselves and their families.

Our people

- 9 Our staff feel that they are treated with respect, irrespective of age, gender or ethnicity, to be measured by the number of positive responses to our staff Viewpoint survey being at least as good as the overall average among staff of different ages, genders and ethnicities.
- 10 Support all our employees to develop their basic skills, including literacy and numeracy, and work towards relevant, valuable qualifications where appropriate. This will include ensuring that a further 350 people graduate from our apprenticeship programme this year, and that a further 800 join. We will also aim to get one in every 29 members of our store and distribution staff onto our Options development programme, helping our staff to develop their operating and leadership skills.
- 11 Reduce our reportable accident rate in the workplace by 3% year on year.

To view our 2007 KPI results, please visit us at:

www.tesco.com/crreview08/kpi

A view from Forum for the Future



Over recent months, the role of supermarkets has come under the spotlight like never before. Government has held inquiries into how they operate; customers have made their views known on topics like plastic bags and packaging. At the same time, we have seen retailers setting ambitious targets that demonstrate visible leadership amongst businesses and put government to shame.

This Review paints a picture of Tesco responding across a breadth of issues, and acknowledging the complexity of difficult problems in an upfront way. It provides insight into Tesco's perception of the role of a responsible retailer. Tesco clearly recognises the key concerns of civil society, such as high street diversity, and its responsibilities to the local community. We are heartened by the fact that sustainability issues are increasingly part of a strategic approach to how Tesco does business. We can now see the beginning of investment of serious resources, stronger management systems and processes, and the launching of new product lines.

The Review also contains clear targets against which Tesco can manage its business and external commentators can hold it to account. We particularly welcome the introduction of additional future commitments across its international stores, on issues such as trading fairly and reducing carbon, challenging Tesco to meet higher targets.

One of the most important contributions a retailer of this size can make is in engaging customers and making green choices widely available. Sir Terry Leahy has spoken compellingly about his desire to "deliver a revolution in green consumption". There are lots of good initiatives described here – such as the positive rewards of green Clubcard points for environmentally friendly behaviours. We believe that Tesco is well positioned to bring sustainable products out of the niche and into the mainstream in a way that adds value to the Tesco brand. We urge Tesco to scale these initiatives up and to make them more visible to shoppers in the stores.

Climate change is one of the biggest challenges we face, and Tesco should be commended for its pioneering initiatives in this area. Whilst we acknowledge Tesco's dedication to customer choice, the scale and urgency of climate change will require retailers to take difficult decisions in the short term, rather than wait for consumer education to drive the market for low-carbon products. We warmly welcome moves by Tesco to offer competitively priced, climate-friendly, products but we believe that, in the future, supermarkets like Tesco will have to be bolder about 'editing choices' on behalf of customers.

There are areas where Tesco can make further improvements. As a sustainable development charity, we would like it, for example, to drive down waste more aggressively and take a more positive approach to its role as a fair trader. The Review shows how Tesco

is increasingly becoming international and highlights interesting initiatives in other countries. As it expands globally, it will have to work hard to apply the same standards and ambition in tackling sustainability issues everywhere it works.

Ultimately, we need to ask the question "how does this all add up?" We only have the one planet earth. Going forward, Tesco's challenge is to set out its vision for sustainable retail, detailing action on how it will address its broader sustainability impacts as clearly and robustly as it has done for climate change. Tesco will want to find ways to adapt a business model based on continual growth of sales and global expansion, to address living within environmental limits. This will require a holistic consideration of how the products Tesco sells are sourced, used and disposed of by customers, whilst addressing the fundamental question of creating more value with less impact on our planet. This will require brave action, but leadership here will deliver continued commercial success, and truly sustainable consumption.

Peter Madden
Chief Executive

Shannon Carr-Shand
Sustainability Advisor, Business Programme

Forum for the Future – the sustainable development charity – works in partnership with leading organisations in business and the public sector. Our vision is of business and communities thriving in a future that is environmentally sustainable and socially just. We believe that a sustainable future can be achieved, that it is the only way business and communities will prosper, but that we need bold action now to make it happen. We play our part by inspiring and challenging organisations with positive visions of a sustainable future; finding innovative, practical ways to help realise those visions; training leaders to bring about change; and sharing success through our communications. It is a Registered Charity in the UK (number 1040519). Forum for the Future is not an auditor or a verifier. As such, these comments should not be read as verification of data or information contained within the Review.

Tesco is one of Forum for the Future's Corporate Partners. Through this partnership Tesco makes a direct financial contribution to Forum for the Future. Last year Forum's income from Tesco represented less than 3% of Forum's turnover. The partnership is currently in its seventh year.

For more information on Forum for the Future visit:

www.forumforthefuture.org.uk



Cover: Schoolchildren participating in Sports for Schools and Clubs training session.

Back Cover: Staff member from our Tesco hypermarket, Budapest, Hungary.

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Every Little Helps

www.tesco.com/crreview08